

**SCHAEFFLER**

Financial Statements  
as at December 31, 2015

Schaeffler AG

Mobility for tomorrow

**Technological Expertise and  
Systems Know-how**



# Financial statements and Management report

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#### **Disclaimer in respect of forward-looking statements**

This management report contains forward-looking statements that are based on the Board of Managing Directors' current estimation at the time of the creation of this report. Such statements refer to future periods or they are designated by terms such as "estimate", "forecast", "intend", "predict", "plan", "assume", or "expect". Forward-looking statements bear risks and uncertainties. A variety of these risks and uncertainties are determined by factors not subject to the influence of the Schaeffler Group. Therefore, actual results can deviate substantially from those indicated.

#### **Impact of currency translation/constant currency**

Revenue and earnings figures at constant currency, i.e. excluding the impact of translation, are calculated by translating revenue and earnings using the same exchange rate for both the current and the prior year or comparison reporting period.

# 1. Fundamental information about the group

## 1.1 Overview of the Schaeffler Group

The Schaeffler Group (also referred to as “Schaeffler” below) is an integrated global supplier to the automotive and industrial sectors. Highest quality, outstanding technology, and strong innovative ability represent the basis for the Schaeffler Group’s lasting success. The Schaeffler Group identifies key trends early on, invests in researching and developing new forward-looking products, and sets new standards in technology. Its application-oriented systems expertise enables the Schaeffler Group to offer comprehensive solutions that are tailored to customer and market requirements. The Schaeffler Group is a key contributor to the “Mobility for tomorrow” with intelligent high-precision components, modules, and systems in engine, transmission, and chassis applications as well as rolling and plain bearing solutions for a large number of industrial applications. The company already offers innovative products for hybrid and electric vehicles today.

With its approximately 84,000 employees, the Schaeffler Group is one of the leading global technology companies, its approximately 170 locations in over 50 countries providing it with a network of manufacturing locations, research and development facilities, and distribution companies. The group’s 74 manufacturing locations are the cornerstone of its operations. As a global development partner and supplier, Schaeffler maintains stable long-term relationships with its customers and suppliers. In addition to Schaeffler AG, a publicly listed stock corporation (“Aktiengesellschaft”) incorporated under German law, with its registered office in Herzogenaurach, acting as the group’s lead company, the Schaeffler Group included 153 domestic and foreign subsidiaries as at December 31, 2015.

For years, the Schaeffler Group has been pursuing a growth strategy aimed at profitable above-market growth. A firm determination to achieve highest quality, technology, and innovative ability, in doing business with customers as well as in the group’s internal processes, form the core of this growth strategy. The Schaeffler Group developed its strategic concept “Mobility for tomorrow” in late 2013 based on the great megatrends driving its business. Under this concept, the Schaeffler Group focuses on the four key issues “eco-friendly drives”, “urban mobility”, “interurban mobility”, and “energy chain”. The Schaeffler Group actively participates in shaping these focus areas with its own research and development and provides its customers and business partners with an attractive product range from a position as an innovative and technological leader. The Schaeffler Group combines technological expertise in research and development and in production.

The Schaeffler Group’s organizational and leadership structure is based on a multi-dimensional matrix organization with two divisions, five functions, and four regions. The Schaeffler Group is managed by the Board of Managing Directors of Schaeffler AG. The Board of Managing Directors consists of the Group CEO and the CEOs of the divisions and functions. Together, the

Board of Managing Directors and the Regional CEOs represent the Schaeffler Group’s Executive Board. In this manner, the Schaeffler Group’s organizational structure is reflected in its leadership structure.

Schaeffler AG’s common non-voting shares were listed on the Frankfurt Stock Exchange on October 09, 2015. With this listing, the company has created the basis for successfully continuing the Schaeffler Group’s profitable growth in the coming years. The listing represented an important component of the realignment of the company’s capital and corporate structure, which was aimed at further reducing debt levels and improving the capital structure for the long term. The free float currently amounts to approximately 10.8 % of Schaeffler AG’s total common and common non-voting share capital.

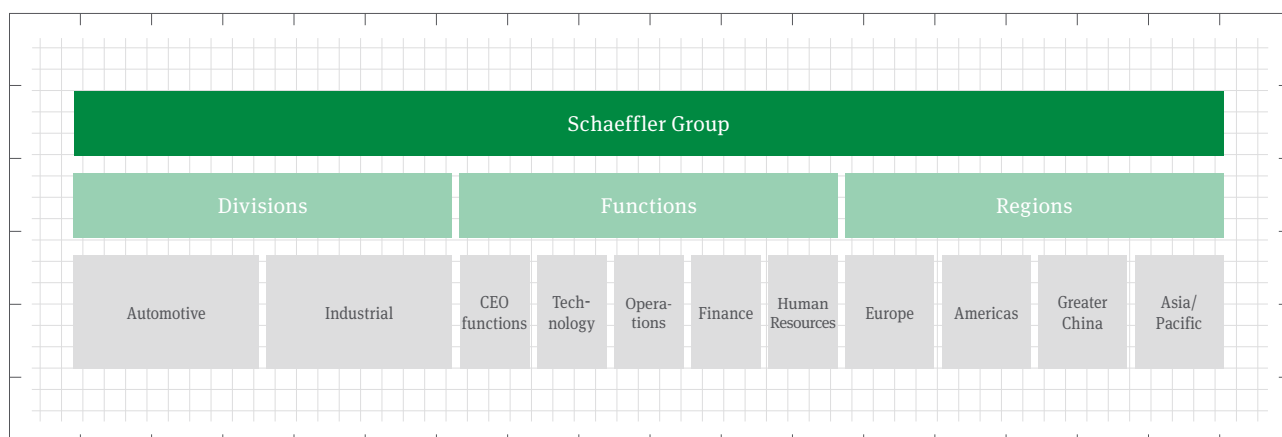
## Organizational structure

The Schaeffler Group’s business is primarily managed based on its Automotive and Industrial divisions, which consist of several business divisions and business units in 2015. The divisions include both the OEM business and the Aftermarket business. The Automotive division business is divided into the four business divisions Engine Systems, Transmission Systems, Chassis Systems, and Automotive Aftermarket. The Industrial OEM business was managed based on global business divisions and business units up to December 31, 2015. Since January 01, 2016, it is primarily managed based on regions. On this basis, the Schaeffler Group’s Europe, Americas, Greater China, and Asia/Pacific regions are responsible for the Industrial business in their markets. The “CORE” program set up the organizational realignment of the Industrial division in August 2015. The foundation of this realignment is the Schaeffler Group’s three-dimensional organizational and leadership model which differentiates between divisional, functional and regional units.

In addition to the two divisions, the Schaeffler Group’s organizational model includes five functions: (1) CEO functions, (2) Technology, (3) Operations, (4) Finance, and (5) Human Resources. Distribution is embedded directly in each of the Automotive and Industrial divisions. The third dimension are the group’s four regions Europe, Americas, Greater China, and Asia/Pacific, each managed by a Regional CEO.

### Schaeffler Group organizational structure

No. 001



## Leadership structure

The Schaeffler Group is managed by the Board of Managing Directors of Schaeffler AG. In addition to the Chairman of the Board of Managing Directors (Chief Executive Officer – CEO), the Board of Managing Directors comprises the CEOs of the Automotive (CEOs Automotive) and Industrial (CEO Industrial) divisions and the Managing Directors responsible for the Schaeffler Group’s functions (Chief Technology Officer, Chief Operating Officer, Chief Financial Officer, and Chief Human Resources Officer). The Board of Managing Directors is directly responsible for managing the company, setting objectives and strategic direction, and managing the implementation of the growth strategy taking into account the interests of shareholders, employees and other stakeholders of the company in order to add long-term value. The CEO coordinates the management of the company and the Schaeffler Group.

In addition to the divisions and the functions, the group’s matrix organization comprises the regions Europe, Americas, Greater China, and Asia/Pacific, each managed by a Regional CEO. The Regional CEOs report directly to the CEO. Together, the Board of Managing Directors and the Regional CEOs represent the Schaeffler Group’s Executive Board. In this manner, the Schaeffler Group’s organizational structure is reflected in its leadership structure.

The Supervisory Board of Schaeffler AG appoints, advises, and supervises the Board of Managing Directors and is involved in fundamental decisions. The Chairman of the Supervisory Board coordinates the Supervisory Board’s activities.

The Board of Managing Directors and the Supervisory Board comply with the recommendations of the German Corporate Governance Code in conducting their affairs and have issued the declaration of compliance required by section 161 German Stock Corporations Act (“Aktiengesetz” – AktG) in December 2015. The corporate governance report including the corporate governance declaration in accordance with section 289a HGB, which includes the declaration of conformity required by section 161 AktG, is publicly available from the company’s website at [www.schaeffler.com/ir](http://www.schaeffler.com/ir) (see Corporate governance section on pages 114 et seq.).

Leadership structure of the Schaeffler Group

No. 002





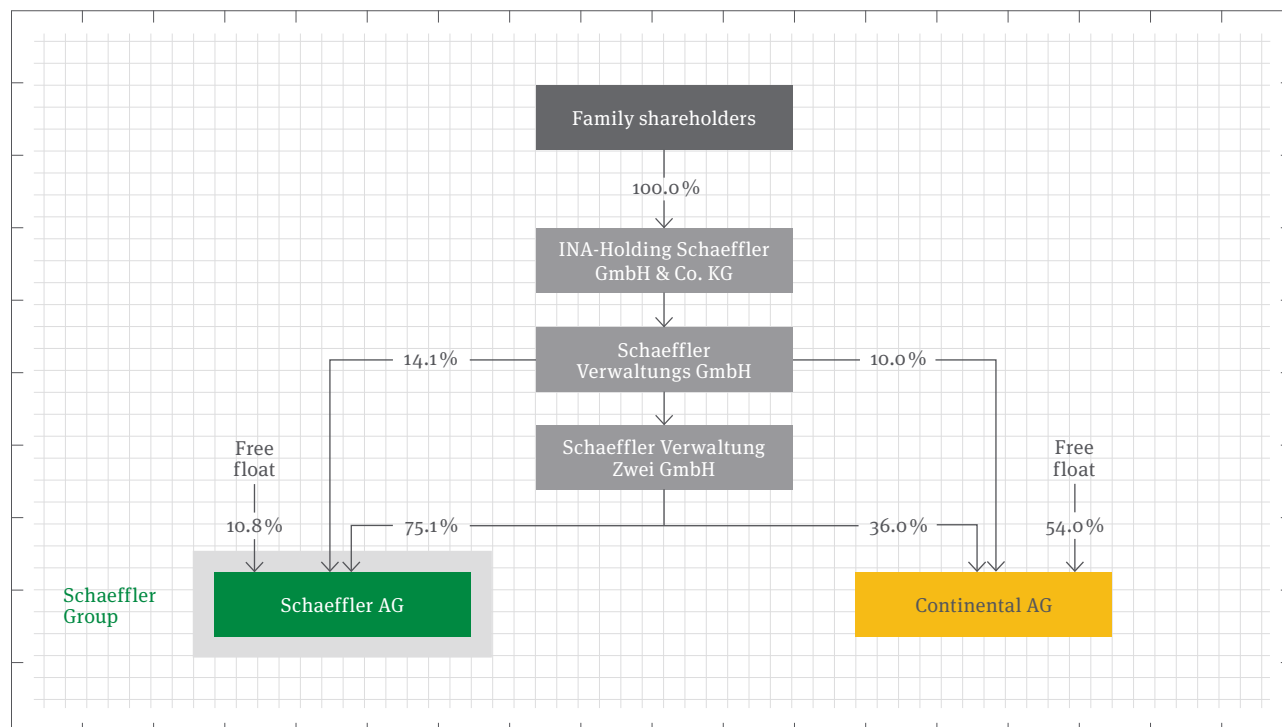
## Legal group structure

In addition to Schaeffler AG, a stock corporation incorporated under German law with its registered office in Herzogenaurach that acts as the group’s lead company, the Schaeffler Group included 153 (prior year: 155) domestic and foreign subsidiaries as at December 31, 2015; 51 (prior year: 53) entities are domiciled in Germany and 102 (prior year: 102) in other countries. Schaeffler AG’s common non-voting shares were listed on the Frankfurt Stock Exchange on October 09, 2015 (see chapter “Net assets and capital structure” pages 78 et sec.).

Schaeffler AG’s share capital is divided into 500 million common bearer shares and 166 million common non-voting bearer shares as at December 31, 2015. Each common share and each common non-voting share represents an interest in total share capital of EUR 1.00 each. 75.1 % of the shares are held by Schaeffler Verwaltung Zwei GmbH (500 million common shares), while 14.1 % are held by Schaeffler Verwaltungs GmbH (approximately 94 million common non-voting shares). The free float amounted to approximately 10.8 % (approximately 72 million common non-voting shares) at December 31, 2015. Both Schaeffler Verwaltungs GmbH and Schaeffler Verwaltung Zwei GmbH are wholly-owned subsidiaries of INA-Holding Schaeffler GmbH & Co. KG, which in turn is entirely family-owned. Thus, INA-Holding Schaeffler GmbH & Co. KG indirectly holds a total of 89.2 % of the shares in Schaeffler AG and an indirect investment in Continental AG of 46.0 %.

Simplified ownership structure as at December 31, 2015

No. 003



## 1.2 Business activities

Since the realignment of the Schaeffler Group’s organizational and leadership structure in November 2013, its organizational model is based on a consistent matrix organization with three dimensions – divisions, functions, and regions. The business is primarily managed based on the two divisions Automotive and Industrial. The three dimensions are discussed in detail below.

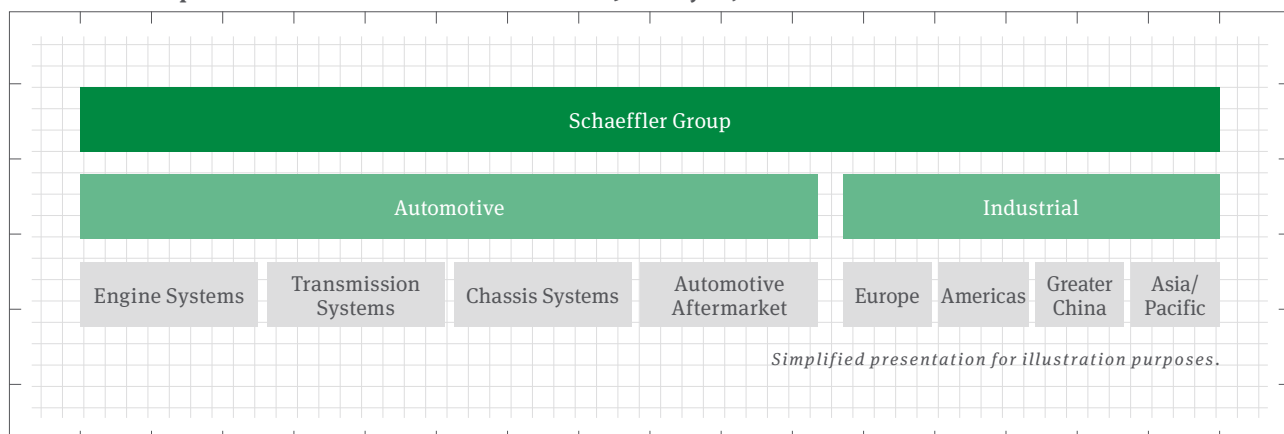
### Divisions

The Schaeffler Group has divided its business activities into the two divisions Automotive and Industrial. The Automotive division is subdivided into four business divisions (Engine Systems, Transmission Systems, and Chassis Systems, as well as Automotive Aftermarket), which in turn comprise several business units. Until December 31, 2015, the Industrial division was subdivided into two business divisions (Industrial Applications and Industrial Aftermarket) and business units.

Since January 01, 2016, the Industrial division is primarily managed based on the regions Europe, Americas, Greater China, and Asia/Pacific. The realigned management model is part of the “CORE” program initiated by the Board of Managing Directors in 2015 (see pages 8 et seq. for further detail on the Industrial division). It represents the basis for improving the Industrial division’s profitability for the long-term and returning the division to a growth path.

Schaeffler Group divisions and business divisions since January 01, 2016

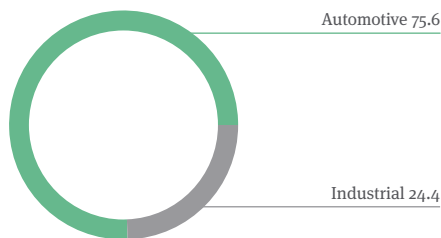
No. 004



The Automotive division generates approximately 76 % (prior year: 74 %) of revenue, while the Industrial division contributes approximately 24 % (prior year: 26 %) of total revenue. In 2015, approximately 78 % (prior year: 78 %) of total group revenue was generated by the two divisions' OEM business. The Automotive and Industrial divisions' trading, spare parts, and service business (Aftermarket business) totaled approximately 22 % (prior year: 22 %) of total revenue in 2015.

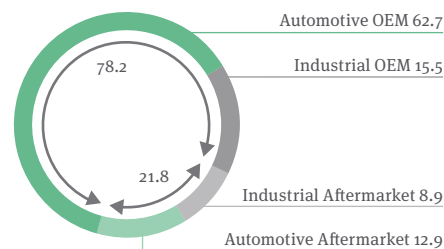
**Schaeffler Group revenue by division** No. 005

in percent



**Schaeffler Group revenue by OEM/Aftermarket** No. 006

in percent



## Automotive

The Automotive division supplies all major automotive manufacturers worldwide as well as approximately 8,000 automotive suppliers (Tier 1) and Automotive Aftermarket customers. As a partner to the automotive sector, Schaeffler leads the field when it comes to developing and manufacturing ground-breaking components and systems for engines, transmissions, and chassis. The group's operating excellence relates to components and system solutions not only for vehicles with drive trains based on the internal combustion engine, but also for hybrid and electric vehicles. The Automotive division business is organized into the business divisions (BD) Engine Systems, Transmission Systems, Chassis Systems, and Automotive Aftermarket. The Automotive division has the objective of achieving lasting growth in excess of the increase in worldwide automobile production.

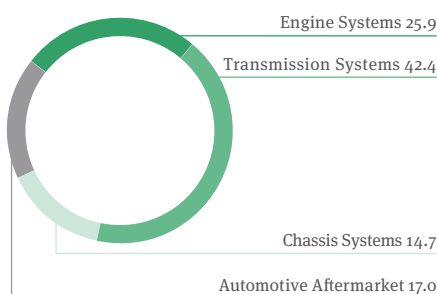
The Automotive division's main products include clutch systems, transmission components, torsion dampers, valve train systems, camshaft phasing units, electric drives, and bearing solutions in transmissions and chassis. The Schaeffler Group's precision products and systems are key to helping make engines use less fuel and comply with increasingly strict emission requirements. At the same time, they also increase driving comfort and dynamics and extend engine and transmission life. Schaeffler Automotive, one of the leading automotive suppliers worldwide, offers comprehensive technical expertise for the entire drive train.

A comprehensive Aftermarket portfolio rounds out the business of the Automotive division. The Aftermarket business is responsible for the global business with spare parts. The product range covers applications in clutch and release systems, engine and transmission applications, and chassis applications. In addition, Schaeffler Automotive Aftermarket offers a comprehensive

variety of services such as practice-oriented training courses, advice provided by the Schaeffler repair hotline or the group’s online garage portal, as well as the development of specialized tools.

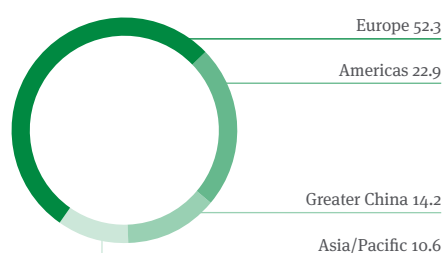
**Automotive division revenue by business division** No. 007

in percent



**Automotive division revenue by region** No. 008

in percent by market view



## Industrial

The Industrial division supplies precision products to approximately 14,000 customers in various industrial sectors. Until December 31, 2015, the Industrial division’s operations were divided into two business divisions (BD): the Industrial Applications BD, which consisted of the OEM business in the industrial sector, and the Industrial Aftermarket BD, which represented the spare parts and service business. Since January 01, 2016, the Industrial division is primarily managed based on regions due to its wide customer and business structure. On this basis, Schaeffler’s Europe, Americas, Greater China, and Asia/Pacific regions operate as profit centers responsible for the Industrial business in their respective markets.

The Industrial division’s product spectrum includes rolling and plain bearings, linear technology, maintenance products, monitoring systems, and direct drive technology. The Industrial division offers a broad portfolio of bearing solutions, ranging from high-speed and high-precision bearings with small diameters to large-size bearings over three meters in diameter.

The bearings and related products manufactured by this division are used in applications in drive technology, production machinery, and wind turbines, as well as in heavy industries. In the aerospace sector, the Schaeffler Group is a leading manufacturer of high-precision bearings for jet and helicopter engines as well as for space travel applications. The focus here is increasingly on smart products and on connecting components. One example of this is the “Machine Tool 4.0”, whose sensor-equipped components measure and report vibrations, forces and temperatures at all relevant bearing positions.

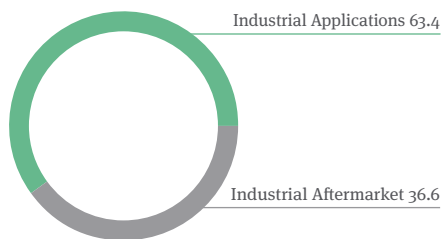
Schaeffler’s Industrial Aftermarket is responsible for the spare parts and service business with end customers and distributors in all significant industrial sectors. The company’s focus is on ensuring the supply of high-quality products, application solutions, and services to its

customers. In addition, Schaeffler offers systems for condition monitoring of plants and performs remote monitoring for its customers, effectively increasing customers' system availability.

**Industrial division revenue by business division**

No. 009

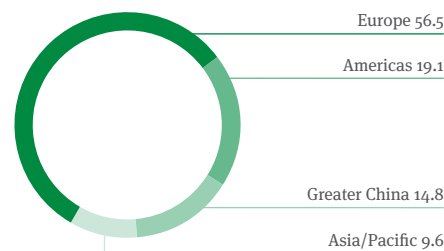
in percent



**Industrial division revenue by region**

No. 010

in percent by market view



**“CORE” program**

On August 10, 2015, Schaeffler AG's Board of Managing Directors decided to realign the company's Industrial division based on the “CORE” program. The program is designed to return the Industrial division to lasting growth and increased profitability with a target EBIT margin of 13 % in 2018. Key elements of the “CORE” program are (1) higher sales growth through high-volume business and an optimized product and service portfolio, (2) improving the division's competitiveness by enhancing its delivery performance and service quality, (3) stronger customer orientation through a strengthened regional sales organization supplemented by a global key account approach, and (4) cost savings and efficiency improvements through, for instance, leaner organizational structures.

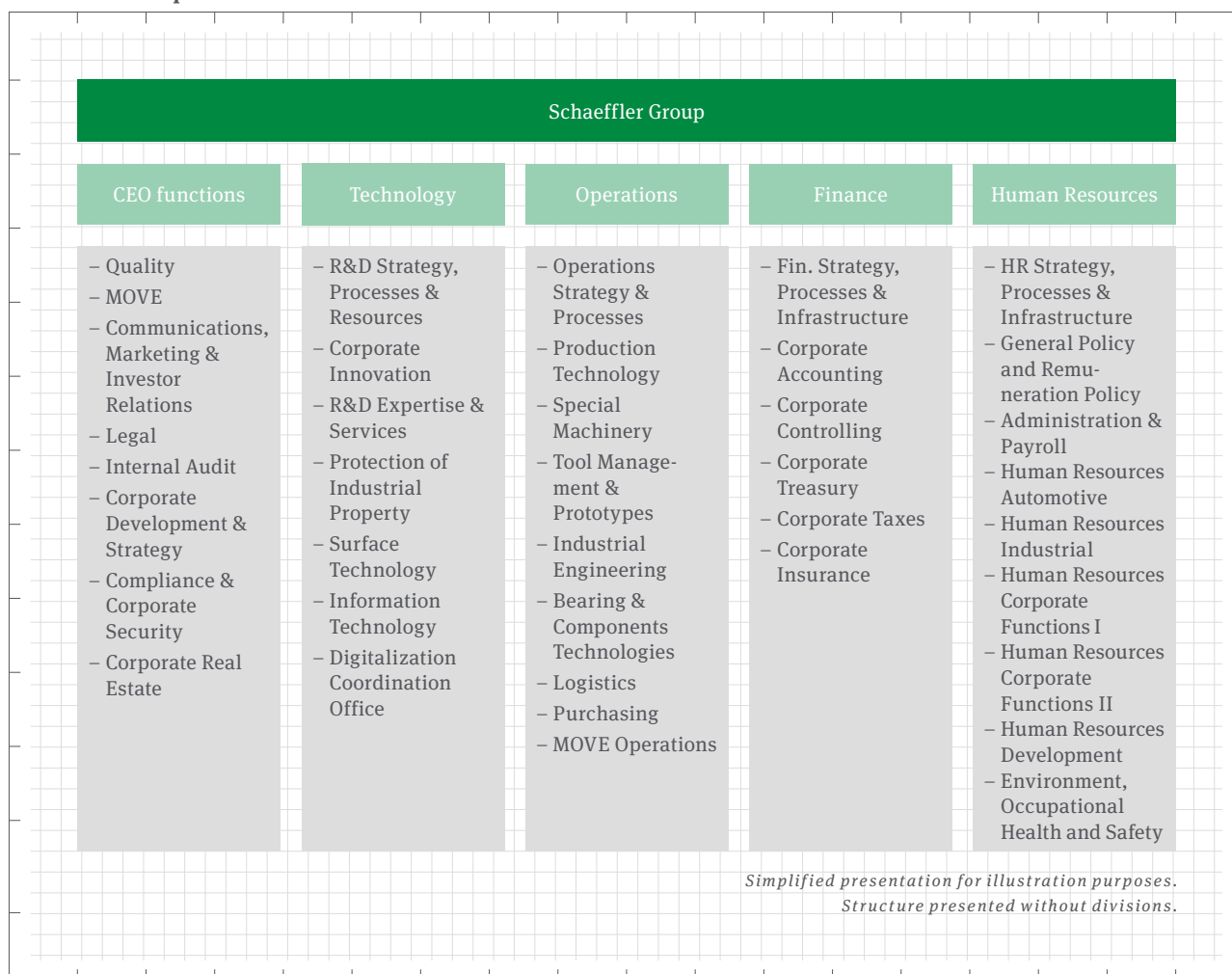
This organizational realignment serves as the basis for streamlining workflows and processes and improving their efficiency. Following the realignment, the Schaeffler Group's Industrial OEM business is primarily managed on the basis of regions due to its broad customer and business structure, and no longer based on treating global business divisions and business units as profit centers as was the case until December 31, 2015. On this basis, Schaeffler's Europe, Americas, Greater China, and Asia/Pacific regions operate as profit centers responsible for the Industrial business in their respective markets. Responsibility within each region is divided among the subregions. Each region continues to divide its business into the sectors as in the past. In addition, the Schaeffler Group will continue to distinguished between the OEM business and the trading, spare parts, and service business. The realignment also comprises changes aimed at more efficient cooperation of functional units, both within the Industrial division and when interfacing with the functional units external to the Industrial division. These changes will have to take into account that, unlike in the Automotive division, only a relatively small proportion of products is developed within the Industrial division and manufactured in production facilities managed directly by the Industrial division. The majority of the products is supplied by the “Bearing & Components Technologies” unit as an internal supplier. The realignment is also designed to ensure that functional units cooperate more efficiently, particularly with respect to the interfaces between sales, product and application development, and operations. As part of this program, the company expects to reduce the Industrial workforce by up to 500 jobs in a socially acceptable manner, particularly in Germany and Europe.

## Functions

The multi-dimensional structure of the Schaeffler Group includes the functional management level with five functions: (1) CEO functions, (2) Technology, (3) Operations, (4) Finance, and (5) Human Resources (HR).

Schaeffler Group functions

No. 011



The functions are essential to securing the Schaeffler Group’s long-term competitiveness and innovative ability. In accordance with the company’s commitment to highest quality, outstanding technology and strong innovative ability, the two functions Technology (particularly Research and Development) and Operations are discussed in more detail below.

## Quality

The Schaeffler Group's benchmark is consistent highest quality and product safety across all applications in order to provide mobility for tomorrow – in the cities just as in long-distance transportation, eco-friendly, and energy efficient.

The comprehensive quality management system is based on a central management handbook containing regulations and prescribed processes applicable groupwide. Compliance with and monitoring of these requirements are guaranteed by audits and reviews, and they ensure a uniform global level of quality. In addition, each unit has managers specifically responsible for quality or other quality experts working closely with the relevant management in order to ensure that the quality management system in the manufacturing facilities and locations is continuously improved.

Its product expertise and comprehensive quality management enable the Schaeffler Group to consistently ensure a very high level of quality. In light of this, the Schaeffler Group has continued to develop and reinforce the interaction of error prevention and error detection activities. Benchmark for this is the “zero defects principle” in place at all Schaeffler Group locations, which stands for process stabilization and continuous improvement. It facilitates the early detection and elimination of weaknesses. The thorough implementation of the “zero defect principle” guarantees top process reliability and product quality across all stages – from design and manufacturing through to service.

Numerous awards from customers and internationally recognized certifications demonstrate the Schaeffler Group's high quality standards. All of the Schaeffler Group's manufacturing locations are certified under globally recognized quality norms and standards such as ISO 9001:2008 or ISO TS 16949:2009. These certifications played a role in the Schaeffler Group receiving 24 quality awards in 2015, such as the “Volvo Car Quality Excellence Award” and Nissan's “Global Quality Award”.

The “Fit for Quality” program was initiated several years ago. “Fit for Quality” ensures a systematic approach to achieving highest quality with the objective of “zero defects”. The program defines policies and rules of conduct for the day-to-day work of all employees of the Schaeffler Group. It provides guidance and orientation on how to prevent errors to begin with or how to permanently eliminate them. The program was developed further in 2015. The objective is to deeply root the “Fit for Quality” program in the company's culture.

Being aware of its responsibility to customers, consumers, and employees, the Schaeffler Group has made product safety its top priority. Understanding the markets' requirements and customers' needs with respect to safe products and reflecting these in the company's processes is key here. The Schaeffler Group has initiated a communication platform, the “Product Safety Network”, that includes a large number of companies and is supported by the industry associations VDA, VDMA, and ZVEI. The “Product Safety Network” is run under the auspices of the Federal Ministry for Economic Affairs and Energy (BMWi). Its members are companies with a broad spectrum of technical and electromechanical products. The goal of the network is to continuously improve their collective activities with respect to product safety issues in the interest of consumers. The focus is primarily on the fields of passenger transport and mechanical engineering and plant construction. A periodic product safety conference is designed to facilitate sharing of information across the network. Schaeffler hosted the first product safety conference in January 2015.

## Technology

The Technology function has made it its goal to secure and expand the Schaeffler Group's technological leadership and to thoroughly delight its customers with innovative application- and customer-oriented system solutions from a single source and with its comprehensive development expertise. Research and development activities are aligned with the "Mobility for tomorrow" strategic concept and its four focus areas "eco-friendly drives", "urban mobility", "interurban mobility", and "energy chain".

In addition to R&D Strategy, Processes & Resources, Corporate Innovation, R&D Expertise & Services, Protection of Industrial Property and Surface and Information Technology, the Technology function also includes the Digitalization Coordination Office, which is described in more detail following the group's and the divisions' research and development activities.

### Schaeffler Group research and development

The Schaeffler Group is actively helping to shape technological progress for "Mobility for tomorrow" with 6,650 R&D staff (prior year: 6,387) at 17 R&D centers (prior year: 16) and additional R&D locations in 19 countries. Its 2,518 patent registrations filed with the German Patent and Trademark Office made the Schaeffler Group the second most innovative company in 2014. The 2,643 inventions reported internally (prior year: 2,772) also demonstrate the company's innovative ability. On this basis, the Schaeffler Group expects to once again rank among the most innovative companies in Germany in 2015.

The Schaeffler Group's research and development activities benefit from the company's many years of experience and expertise with product and systems development. For instance, the group has been a leader in the field of innovative surface and coating technology for years and offers components and systems with optimal coatings for all requirements. Schaeffler's Acoustics Network is another example. Particularly in the field of drive technology, such as bearings in electric motors or household or office appliances, Schaeffler offers improvements in investigating any type of noise or vibration. The knowledge gained and the experience garnered from all areas of automotive technology and industrial development are shared in an expertise network. This type of continuous knowledge sharing in an internal and external R&D network represents the basis for the Schaeffler Group's global technological leadership.

Another success factor is the increasing cooperation across divisions within the Schaeffler Group. The consistent transfer of knowledge between the Automotive and Industrial divisions generates significant synergies and, consequently, competitive advantages. Developments of the Industrial division are similarly transferable. One example of this is the planetary screw drive. The very high number of rolling contacts enables the planetary screw drive to achieve a higher load carrying capacity and rigidity than other types of screw drives. Potential applications can be found in the solar and wind power sectors and in mechanical engineering. The planetary screw drive is already in volume production in clutch actuators for the automotive sector.

The systematic innovation process is a fundamental prerequisite for effectively and efficiently driving the Schaeffler Group's innovation projects. It is based on the annual Technology Dialog, which sets the fundamental direction of the Schaeffler Group's research and development activities for the coming five to ten years. The Technology Dialog has three phases: The first is an analysis of various aspects such as areas of expertise, product portfolio, trends, and

Inventions reported 2015

2,643

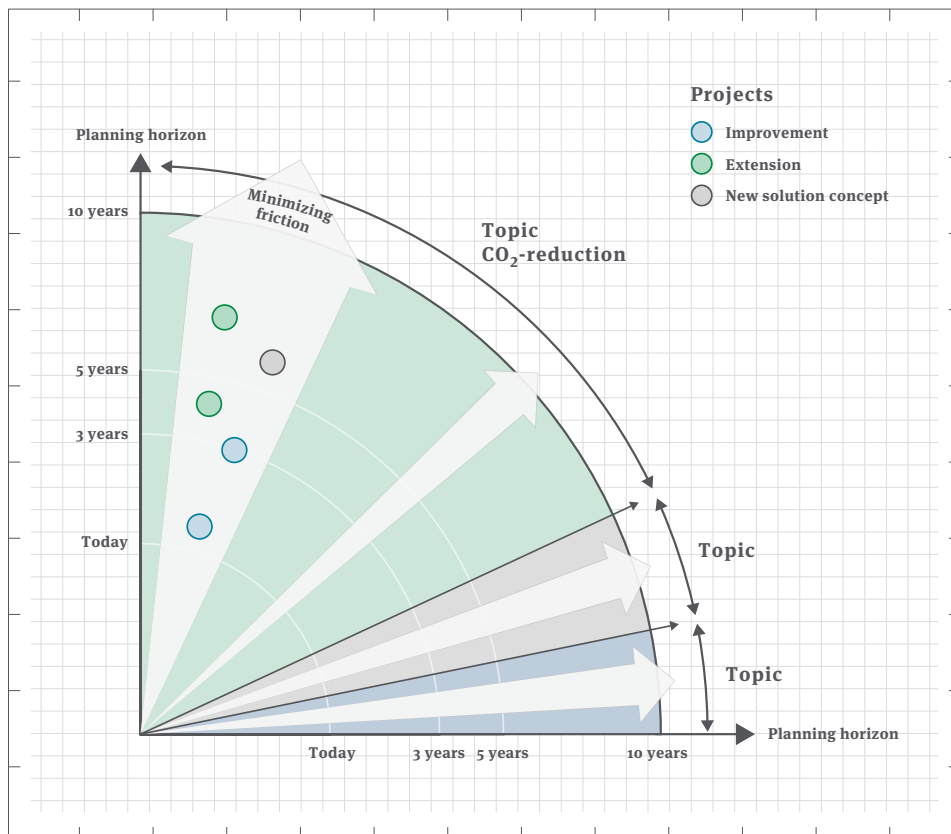


customer requirements as well as strategic requirements. In a second phase, cross-divisional, -regional, and -departmental workshops are held to develop solution concepts for the most promising issues identified. Finally, the third phase entails preparing analyses integrating the market and technological perspectives for the solution concepts developed. These analyses include a cost-benefit-analysis of realizing the solution. Solution concepts are prioritized and approved for follow-up in the form of a development project. Planned development projects and the timing of their realization are documented in the Schaeffler Innovation Radar. Projects are separated into (1) improvements, (2) extensions, and (3) new solution concepts. These projects represent the basis for the subsequent group wide planning process.

The Schaeffler Group's corporate Innovation Management function supports all business units worldwide in identifying potential innovations. Innovation managers act as method experts in interdisciplinary workshops and ensure transparency with respect to decisions regarding the attractiveness of potential innovations.

**Schaeffler Group R&D Innovation Radar**

No. 012



**Research and development in the Automotive division**

Globalization, urbanization, digitalization, scarcity of resources, and the growing need for affordable mobility represent both a challenge and an opportunity for the Schaeffler Group at the same time. Being an expert innovation and technology leader, Schaeffler develops efficient

systems and components in order to meet exactly these requirements. As a development partner with comprehensive systems expertise, the Schaeffler Group already offers innovative products for hybrid and electric vehicles today. At the same time, Schaeffler is also working on making conventional automotive engine and transmission solutions more energy-efficient.

The Schaeffler Group leads the field worldwide when it comes to developing components and systems for the drive train. The Automotive division's research and development activities continually improve and diversify the portfolio, thus securing the group's outstanding competitive position in the drive train field.

The Schaeffler Future Mobility China Concept Car presented in April 2015 is an example of the group's innovative ability. It addresses future challenges in mobility and fuel efficiency in a region that is of strategic importance to the Schaeffler Group. The concept car combines the Schaeffler Group's expertise regarding drive train, hybridization, and systems development ability.

#### Schaeffler China Concept Car

No. 013



The concept car relies on what is known as a P2 solution, where the electric motor is located between the engine and the transmission, and a dedicated hybrid clutch disconnects the internal combustion engine during electric drive mode. In addition, the Schaeffler Group implemented an efficient double clutch. A 3-cylinder 1.0 Liter turbocharged engine serves as the internal combustion engine. The end result is the ability to generate significant fuel savings. Thanks to its modular design, the Schaeffler P2 hybrid module can be integrated into existing conventional drive train platforms, thus reducing development time and cost. The concept car enables Schaeffler to test innovative, efficient, and economic powertrain solutions for the "Mobility for tomorrow".

The Schaeffler Group presented an important result of its extensive research and development activities on the electrification of chassis components, the electromechanical active roll control, at the International Motor Show IAA 2015. Not only does it contribute to vehicle stability and driving safety, but it also helps reduce CO<sub>2</sub> emissions. The system minimizes the rolling motion of the vehicle body when taking corners, reducing vehicle fuel consumption significantly by up to 0.3 liters/100 km compared to hydraulic systems.

In September 2015, Schaeffler presented a transparent vehicle showing around 40 selected products and technologies, demonstrating its extensive systems expertise regarding drive trains and chassis. The Schaeffler Group also shows its expertise using more than ten demonstration vehicles. In these vehicles, consumption has been reduced by over 25 % for hybrid vehicles and, depending on battery size, more than 50 % for plug-in hybrid vehicles.

Another important Schaeffler Group development is the “E-Clutch” system which represents an automatic solution for previously purely mechanical or hydraulic clutch systems. Depending on the development stage, the system either operates the clutch only in specific driving situations or completely automates all clutch operations. This allows fuel-saving driving strategies – from “sailing”, where the engine is disconnected from the transmission during continuous driving and is either switched off completely or idles, through to electrically supported driving – to be applied in vehicles with manual transmissions.

### Research and development in the Industrial division

Global production finds itself on the threshold of the fourth industrial revolution. Future scenarios in practice often referred to under the heading “Industry 4.0” are characterized by highly individualized products in very flexible manufacturing conditions.

The Schaeffler Group is actively helping shape this industrial revolution. One example of this is the “Machine Tool 4.0”. In 2015, the Schaeffler Group put into operation a machine tool which applies Industry 4.0 in practice. Equipped with several dozen new and additional sensors, the milling machine developed in cooperation with DMG MORI, the world market leader in the machining sector, collects a large number of data that can be analyzed in the cloud and provides information on the condition of individual components, either via the operating terminal on the machine or via a device connected to the internet, such as a tablet. In several dozen places, the machine is equipped with sensors that can measure and record pressure, vibration, and force.

#### Machine Tool 4.0 analyses

No. 014



The Machine Tool 4.0 is used in the ongoing volume production of high-precision bearings at the Schaeffler Group’s Höchststadt production location. The project not only generates knowledge for the Schaeffler Group’s own production processes, but also enables the company to present itself to machine tool manufacturers as a solution provider for Industry 4.0.

The Schaeffler Group has consistently continued its X-life campaign by introducing new products and moving further products to the X-life standard. X-life is the seal of quality for particularly high-performance Schaeffler Group products featuring longer economic and operating lives as a result of higher dynamic load ratings than the previous standard.

The related research and development activities have also resulted in, for instance, innovative solutions for preventing bearing damage by white etching cracks (through-hardened rolling bearings coated with Durotect B, such as cylindrical roller bearings) and system solutions in linear technology (plug-and-play-ready linear systems).

### **IT and digitalization**

Digitalization is changing the entire economy and its traditional processes. Today, digital assistance is a core component of value added in purchasing, manufacturing, logistics, research and development, and distribution as well as in the human resources and finance functions.

The key objective is connecting the physical world and the digital world in order to increase the amount of value added. The focus here is both internal and external. Internally, for instance, production locations, machines, buildings, and logistics are connected to each other. Externally, existing business models are expanded and new ones developed. The collection and intelligent analysis of data gathered from real use are turning into a differentiating factor which the Schaeffler Group intends to expand consistently. To accomplish this digital shift, the Schaeffler Group will establish a flexible “Eco-System” consisting of internal and external partners.

Optimizing, synchronizing and combining these digital worlds springing up everywhere with their information and data is the responsibility of the Digitalization Coordination Office. To this end, the company has set up a new department dedicated to promoting and driving digitalization within the Schaeffler Group in 2015, emphasizing the relevance of digitalization to the Schaeffler Group. With its own “Digital Agenda”, the technology group will actively tackle and help shape issues of the future such as Industry 4.0, internet of things, big data, cloud, analytics and new business models. In order to comprehensively prepare for the digital age and to ensure the right priorities are set, the company is in the process of establishing a central project management to implement the “Digital Agenda”. This agenda comprises approximately 70 digitalization scenarios developed using an interdisciplinary approach. A “Digital Program Office” specifically set up for this purpose aggregates the scenarios developed and pushes them forward. The company is planning to further refine its “Digital Agenda” as a core component of its strategy in the “Roadmap 2020” process.

In addition, preparations for developing the new IT strategy were largely completed in 2015. Known as “IT Strategy 2020”, this strategy focuses on both putting in place the IT-related prerequisites for the digitalization initiatives and on the necessary renewal and modernization of the IT system landscape.

## Operations

### Production

As an integrated global supplier to the automotive and industrial sectors, the Schaeffler Group currently has 74 plants with approximately 60,000 employees worldwide. The plants represent the Schaeffler Group's "backbone". They are managed based on uniform principles. At the same time, the global network of plants, the manufacturing technologies they utilize, and the high degree of vertical integration represent the key factors underlying the Schaeffler Group's worldwide success.

The Schaeffler Group's manufacturing network increased its production volume by 4.9 % in 2015. The Schaeffler Group strives to always deliver the highest-possible quality to its customers while maintaining cost efficiency and reliability of supply. It continually improves its production system, with all locations consistently applying the "zero defects principle". Modern quality management techniques and integrated planning across the entire supply chain ensure that all of these requirements are being met. As demonstrated by, among other things, the declining number of customer complaints and reduced production inventories, the company has once more realized improvements in quality and efficiency in 2015. The "Integrated Planning" program enabled the company to further improve the reliability of supply to the customer in 2015.

Efficiency gains also resulted from increasingly networked plant and machinery. The increasing interconnection of processes along the value chain seen for years and summarized under the term "Industry 4.0" makes production more and more digital. The expanded use of sensor and actuator technology and connecting them using the internet helps make machines more independent. This facilitates preventative maintenance, helping to minimize the number of unplanned breakdowns. The potential arising from "Industry 4.0"-related topics is also utilized and tested in machine tools operated in Schaeffler's own production.

A total of 48 plants represent the Schaeffler Group in its Europe region. Besides to manufacturing locations in Germany, France, Italy, and Spain, the group also maintains significant production plants in Central and Eastern Europe. Production capacity at the Central and Eastern European production plants is continually being expanded. The region's most significant plants include the German plants in Bühl, Herzogenaurach, and Schweinfurt, which contributed approximately 12.1 %, 8.0 %, and 10.0 %, respectively to the Europe region's production volume in 2015. The Bühl location celebrated its 50<sup>th</sup> anniversary in 2015. The Schaeffler Group employs

approximately 2,600 production staff at the Bühl location, while approximately 3,500 and 2,600 employees work in production in Herzogenaurach and Schweinfurt, respectively. With approximately 5,000 and 12,000 different product types, the latter two locations provide a manufacturing capacity of approximately 840 and 720 million saleable products per year, respectively. The plants in Brasov, Romania, and Skalica and Kysuce, Slovakia, with their approximately 3,300, 4,400, and 3,900 employees, respectively, are among the largest plants outside of Germany. They contributed 5.0 %, 6.4 %, and 7.0 %, respectively, to the Europe region's production volume in 2015. The production plant opened in Ulyanovsk, Russia, last year obtained its initial certification under ISO TS 16949 and ISO 9001 during the year, confirming that a functioning quality management is in place at that plant. In addition, 2015 saw the cornerstone-laying ceremony for the new plant in Svitavy, Czech Republic.

The Schaeffler Group operates a total of 14 plants in the Americas region, including 8 plants in the U.S. (South Carolina (5), Ohio, Connecticut, and Missouri) and 2 each in Canada, Mexico, and Brazil. In Puebla, Mexico, the Schaeffler Group operates 1 plant with approximately 1,200 production employees, which received Nissan Mexicana's "Quality Origin Award" in 2015. This production location was expanded in 2015.

In its Greater China region, the group operates 7 plants. Taicang, China, with its more than 6,000 production staff, is not only the largest production location in the Greater China region, but also the Schaeffler Group's largest worldwide. Due to the high level of demand for Schaeffler products in China, local production capacity is continually being expanded. The expansion of the Taicang production location was accomplished according to plan. As expansion in Taicang and Nanjing has reached its limits, preliminary selection of another location in Western or South-Western China is currently in progress.

The Schaeffler Group has five plants in its Asia/Pacific region. The cornerstone-laying ceremony for the new plant in Rayong, Thailand, further expands the group's presence in the Asia/Pacific region. The new production plant is being constructed on a 55,000 square meter property in the immediate vicinity of several large automobile plants.

### **Logistics**

The logistics function is responsible for designing, operating, and continually improving the entire supply chain of the Schaeffler Group. The primary goal of this function is – not least in order to ensure high levels of customer satisfaction on a long-term basis – timely, accurate, and efficient supply to all customers and plants worldwide.

The logistics functions Corporate Logistics and Regional Logistics have been in place since early 2014. Their key responsibility is to consolidate all of the Schaeffler Group's logistics activities and efficiently operate the logistics activities along the supply chain. While the governance and guidance functions rest with Corporate Logistics, operational management of logistics activities is based on the logistics reference organization implemented in the Europe, Americas, Greater China, and Asia/Pacific regions (Regional Logistics). The reference organization implemented in 2014 acts as the basis for goal-oriented global cooperation and a high level of transparency in the Schaeffler Group's value chain.

Within the Schaeffler Group, Corporate and Regional Logistics are responsible for managing approximately 250 warehousing locations with more than 350,000 square meters in storage space, and for moving approximately 260,000 tons in freight between the most significant destinations in 2015. Total logistics activities in terms of freight volume have increased approximately 2 % compared to the prior year. 62 % of Schaeffler's logistics activities were concentrated in the Europe region. 20 %, 12 %, and 6 % of all logistics activities related to the Americas, Greater China, and Asia/Pacific regions, respectively.

A significant element of the strategic direction of Schaeffler Group logistics is the "European Distribution Center (EDC)" project. This project will create a high-performance logistics network for the Industrial division aimed at lasting improvements in market supply and delivery performance. Thus, the European Distribution Center contributes significantly to increasing the company's competitiveness. Schaeffler opened its new warehousing locations "EDC North" (Arlandastad, Sweden) and "EDC South" (Carisio, Italy) in 2015. These locations, with their combined space of 39,000 square meters, will consolidate and process deliveries for customers in Northern and Southern Europe, respectively. In addition, construction planning has started for the central distribution center "EDC Center" to be built at the Kitzingen location.



## Purchasing

The Schaeffler Group's purchasing function ensures optimal supply of goods and services to the plants taking into account quality, cost, and reliability of supply. By means including involving suppliers in the process of establishing production, it secures external supply even before production starts. By consolidating purchasing volumes, the purchasing function contributes to the continual improvement of the Schaeffler Group's supplier network. Improving the quality provided by suppliers by cooperating extensively with suppliers, securing competitive procurement costs, and optimizing the supply chain to increase the security of supply by utilizing better logistical connections remain the key objectives of purchasing.

Purchasing consists of the corporate purchasing function for production and non-production materials, and project-related purchasing for the Automotive and Industrial divisions. In addition, purchasing is divided into the Europe, Americas, Greater China, and Asia/Pacific regions, which incorporate the purchasing function for the respective plants.

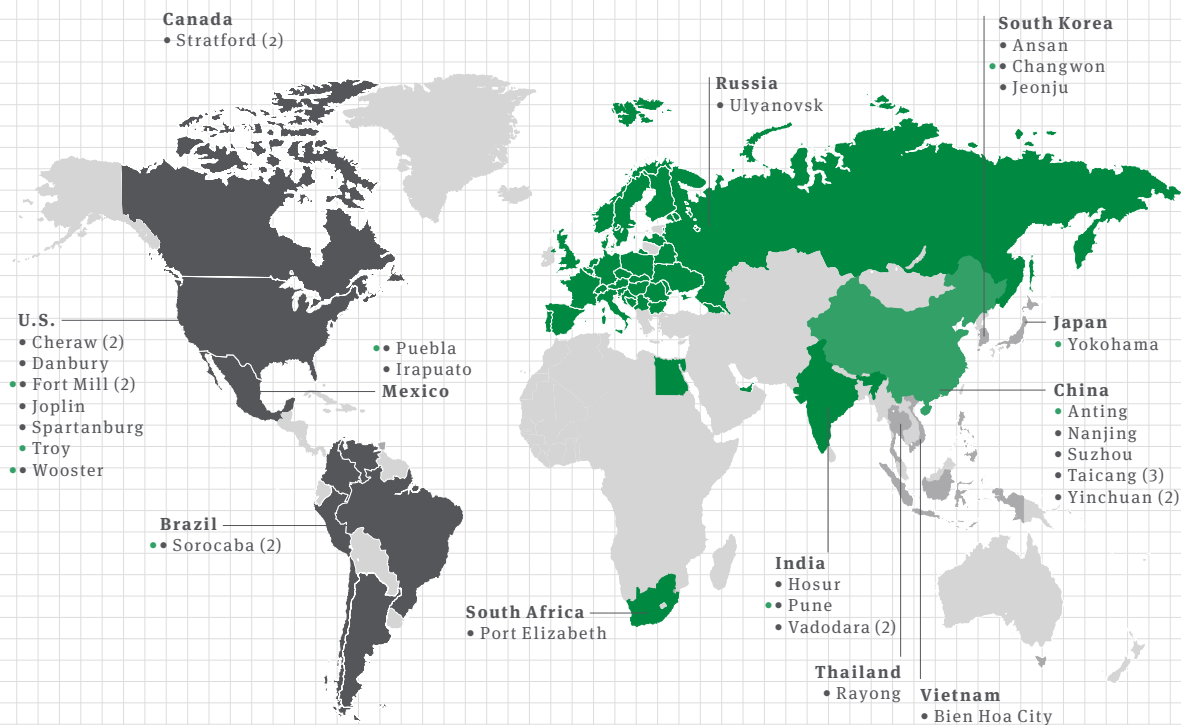
In 2015, the Schaeffler Group experienced an operational increase in total purchasing volume of 3.6 % compared to the prior year. The purchasing volume of production materials (raw materials and components) included here rose by 0.8 %. The purchasing volume in general purchasing (primarily intangible assets, property, plant and equipment, tools, supplies, and services) grew by 7.1 %. The Schaeffler Group was able to ensure supply to its plants around the world at all times in 2015.

The Schaeffler Group obtained goods and services from approximately 33,000 suppliers in approximately 80 countries in 2015. The volume of these purchases related primarily to the Europe (65.8 %) and Americas (17.9 %) regions. 9.4 % and 6.9 % related to the Greater China and Asia/Pacific regions, respectively.

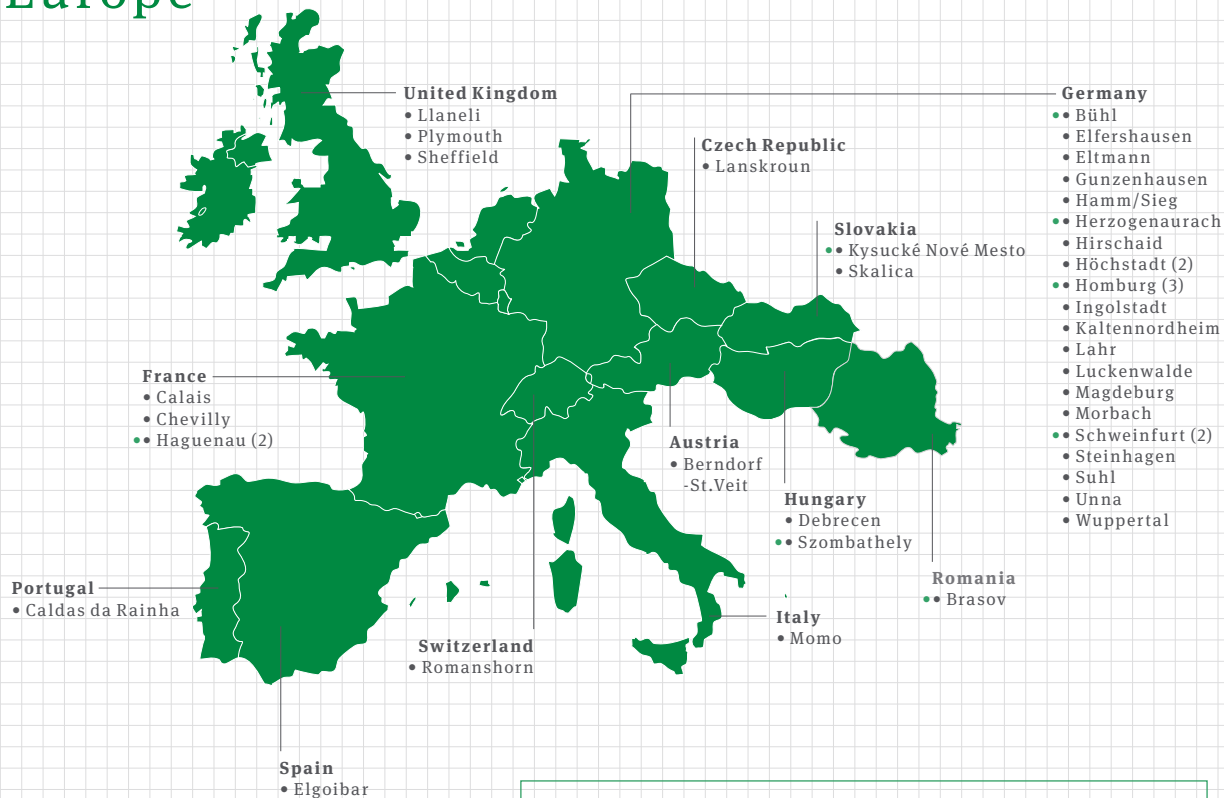
The Schaeffler Group uses various raw materials such as steel (flat steel or steel bar), iron and aluminum casting, as well as non-ferrous metals in manufacturing its products. The production materials Schaeffler uses primarily depend, directly or indirectly, on the trend in the price of scrap steel, coking coal, and iron ore, as well as non-ferrous metals. Price changes are normally either passed on indirectly with a time-lag via changes in costs charged by suppliers or via new prices during contract negotiations.

Continental AG and the Schaeffler Group have been cooperating on purchasing for six years. Both companies benefit from improvements in cost structures from combining purchasing volumes. By utilizing synergies resulting from numerous cross-regional projects and programs, the Schaeffler Group was able to further improve its cost of materials slightly in 2015.

# Schaeffler Group plants and R&D centers



## Europe



	Europe	Americas	Greater China	Asia/Pacific
• R&D centers	• 9	• 5	• 1	• 2
• Plants	• 48	• 14	• 7	• 5

## Regions

The Schaeffler Group’s three-dimensional matrix organization divides the company’s business not only into divisions and functions, but also groups the company’s activities into the four regions Europe, Americas, Greater China, and Asia/Pacific. Each of the Schaeffler Group’s four regions is managed by a Regional CEO.

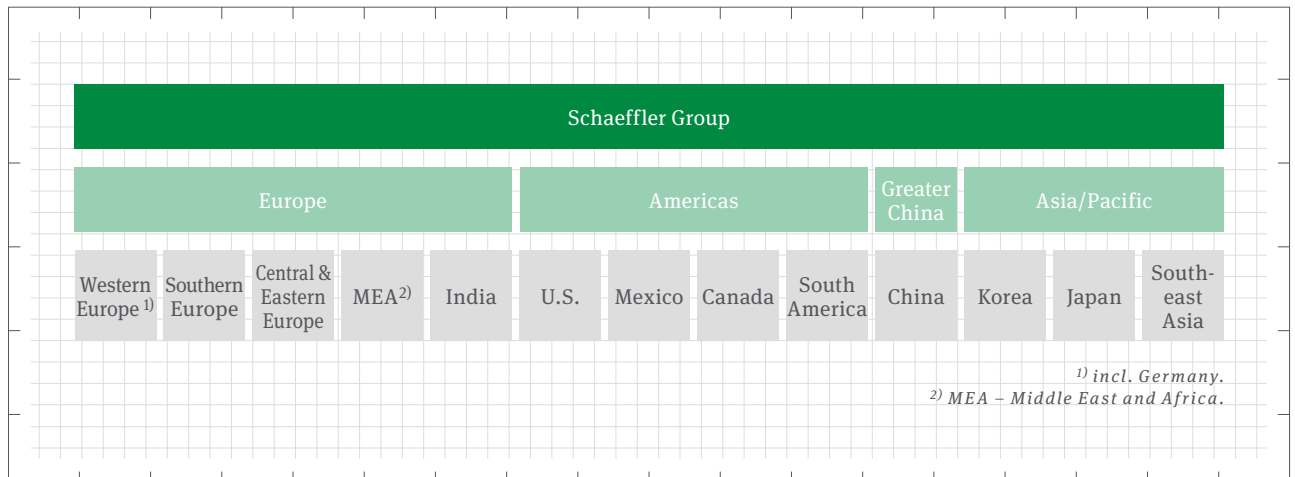
The basis for the Schaeffler Group’s economic success lies in its proximity to the customer. Following its “in the region – for the region” approach, the Schaeffler Group has established an integrated worldwide development and manufacturing network solidly embedded in the regions. Cooperation across divisions and countries leads to a high degree of flexibility in solving new customer requirements and the opportunity of anticipating emerging trends early on. In addition to better acceptance due to cooperation with local customers and suppliers, the Schaeffler Group’s increasing localization results in efficiencies in purchasing and logistics as well as various benefits regarding aspects of sustainability and the environment. The resulting growing regional presence is also reflected in a high degree of localization. The degree of localization describes the relation of a region’s total sales to sales volume manufactured in that region.

### Schaeffler Group revenue by region No. 016

in percent by market view



### Schaeffler Group regions and subregions No. 017



The Europe region combines the subregions Western, Southern, and Central and Eastern Europe, the Middle East and Africa, as well as India. Germany, which forms part of the Western Europe subregion, represents the Schaeffler Group's most important sales market. This region contributed approximately 53 % of consolidated revenue in 2015. The degree of localization amounted to approximately 96 % during the reporting period. The Europe region employed a total of 58,600 employees in 2015, representing 69.6 % of the company's entire workforce. This figure includes the employees of the group's global head office in Herzogenaurach, Germany. The region has 48 plants and 9 R&D centers. Its regional head office is located in Schweinfurt, Germany. The plant constructed in Ulyanovsk, Russia, in the prior year commenced operations as scheduled. In addition, the cornerstone was laid for a new plant in Svitavy, Czech Republic.

The North and South American countries make up the Americas region. This region contributed approximately 22 % of revenue in 2015. The Schaeffler Group achieved a degree of localization of approximately 71 % in the Americas region in 2015. A total of 12,625 staff were employed at 14 plants and 5 R&D centers as well as at distribution locations in North and South America. The Americas region has its regional head office in Fort Mill, South Carolina, U.S.A. The Schaeffler Group has been manufacturing in this region since 1953.

As China is a strategically important sales market for the Schaeffler Group, China, Taiwan, and Hong Kong are managed as a separate region named "Greater China". The region generated approximately 14 % of the group's revenue in 2015; its degree of localization amounted to 68 %. A total of 10,216 staff were employed in Greater China. 7 plants and 1 R&D center are located in this region. The regional head office is located in Anting in metropolitan Shanghai, China. Schaeffler's first subsidiary in this region was founded in Taicang, China, in 1995.

The Asia/Pacific region comprises Korea, Japan, and the countries in Southeast Asia. The Schaeffler Group has been represented in this region since 1953. Approximately 10 % of group revenue was generated by this region in 2015. The degree of localization amounted to approximately 41 % in 2015. The Asia/Pacific region had 2,757 employees. The regional head office is located in Singapore. The Schaeffler Group operates a total of 5 plants and 2 R&D centers in this region. The Schaeffler Group is continually expanding its presence in this region, one example being the plant under construction in Rayong, Thailand.

## 1.3 Group strategy and management

### Group strategy

The Schaeffler Group is an integrated supplier to the automotive and industrial sectors. It follows a growth strategy aimed at profitable above-market growth. At the core of this growth strategy are highest quality, outstanding technology, and strong innovative ability, in doing business with customers as well as in the group’s internal processes.

### Strategic concept “Mobility for tomorrow”

Schaeffler has developed its strategic concept “Mobility for tomorrow” based on the great megatrends driving its business. Under this concept, the Schaeffler Group focuses on the four areas “eco-friendly drives”, “urban mobility”, “interurban mobility”, and “energy chain” across all of its divisions and regions. The company actively participates in shaping these focus areas with its own research and development and provides its customers and business partners with an attractive product range from a position as an innovative and technological leader.

The Schaeffler Group is a key contributor to all forms of mobility of the future. As an international supplier to its automotive and industrial customers, the company already offers innovative products for hybrid and electric vehicles today. The Schaeffler Group is also working on making conventional automotive engine and transmission solutions as well as bearing technology for industrial applications more energy-efficient. Eco-friendly drives, urban mobility, the field of interurban mobility, and the entire energy chain – Schaeffler is shaping “Mobility for tomorrow” for its customers in all of these areas.

#### Strategic concept “Mobility for tomorrow”

No. 018



**(1) Eco-friendly drives**

One of the main objectives of the automotive industry is to develop energy-efficient and sustainable drives with no or low levels of emissions, making them eco-friendly. With its broad range of products, Schaeffler follows a multi-faceted strategy, serving all areas from improving conventional internal combustion engines through hybridization to electric mobility. Key components such as variable valve-control systems, the thermal management module, wet and dry double-clutches, and electronic control modules help reduce CO<sub>2</sub> emissions of conventional drives based on internal combustion engines. In addition, for the Schaeffler Group's automotive customers, innovative products for the field of electric mobility, such as the electric axle drive, the wheel hub drive "E-Wheel Drive", or hybrid modules, play an increasing role in achieving lower CO<sub>2</sub> emission targets.

**(2) Urban mobility**

There is no place where the changing character of mobility is more noticeable than in the megacities of this world. At the same time, there is no place where that is more necessary. Cities like Moscow, Tokyo, or Shanghai are plagued by gridlock every day, making speedy and flexible travel impossible. As a result, there is a trend towards micro-mobility that offers significant opportunities for small vehicles. Responding to this trend, the Schaeffler Group is further expanding its product portfolio for hybrid and electric mobility. Its torque sensor bottom brackets, for instance, have positioned the Schaeffler Group as an innovative supplier in the growing e-bike market.

**(3) Interurban mobility**

The term interurban mobility refers to linking key urban centers around the world. Worldwide traffic will increase significantly in the coming decades as globalization continues and users demand a large degree of flexibility. Providing state-of-the-art mobility solutions is a key challenge for railway and aviation companies. The primary component of a sustainable transport concept is an ecological one. In light of advancing climate change, the focus remains on reducing CO<sub>2</sub> emissions. This means that passengers and freight have to be transported with as little impact on the environment as possible. One example of a technological response to these requirements are eco-efficient aircraft and high-speed trains. Its innovative rolling bearing solutions make the Schaeffler Group a presence for its customers in both rail and air traffic. These products are found in modern high-speed trains and aircraft.

**(4) Energy chain**

As a development partner to the energy sector, the Schaeffler Group supports the expansion of renewable energy. In light of dwindling resources and significant climate challenges, worldwide demand for clean energy is growing. All sections of the energy chain, from generating and transporting energy through to transforming and using it, have to be optimized. Renewable energy is key to this process. Water, wind, and solar power represent promising growth areas for the Schaeffler Group as they will all contribute significantly to the energy supply in the future. The Schaeffler Group's Industrial division offers a comprehensive portfolio of products in the field of renewable energy – the spectrum ranges from bearing solutions for wind turbines through to solutions for solar and water power.

## Strategic objectives

The “Mobility for tomorrow” strategic concept with its four focus areas and the related sub-strategies of the business fields, regions, and functions are designed to help the Schaeffler Group achieve its strategic objectives, which consist of both quantitative and qualitative components.

The strategic corridor is defined by a growth strategy focused on quality, technology, and innovation, sustainable profitable growth strongly oriented towards cash flow, a balanced business portfolio, further expanding localization based on the “in the region – for the region” principle, and securing sufficient financial flexibility.

The Schaeffler Group’s objective is to offer its customers a comprehensive “best in class” product/system portfolio including consulting and service. The Schaeffler Group extensively evaluates new products and markets in light of its ambitious profitability targets. Its focus is on the premium segments, which require highest quality standards. Therefore, the company closely involves its customers in every phase of the product development process in order to best meet their requirements.

The Schaeffler Group strives to deliver the highest-possible quality to its customers. To this end, the company invests in highly standardized and fully automated production plants to continue setting the highest quality standards in the industry. At the same time, Schaeffler consistently realizes productivity gains within its manufacturing processes in order to improve its cost base enabling it to continue achieving an attractive cost/performance ratio.

The Schaeffler Group concentrates on developing and manufacturing high-quality components, modules, and system solutions addressing the global megatrends in the automotive and industrial sectors. The nature of these trends is primarily social, such as urbanization and population growth, technological, such as increasing complexity and digitalization, environmental, such as renewable energy and scarcity of resources, and economic, such as globalization. The Schaeffler Group strives to set new standards in modern engineering with respect to these trends. The company is convinced that focusing on the global megatrends will enable it to continue to profitably grow faster than the market.

The Schaeffler Group is a key contributor to all forms of mobility of the future. The company already offers innovative products for hybrid and electric vehicles today. At the same time, the Schaeffler Group is continually working to make conventional automotive engine and transmission solutions as well as bearing technology for industrial applications more energy-efficient.

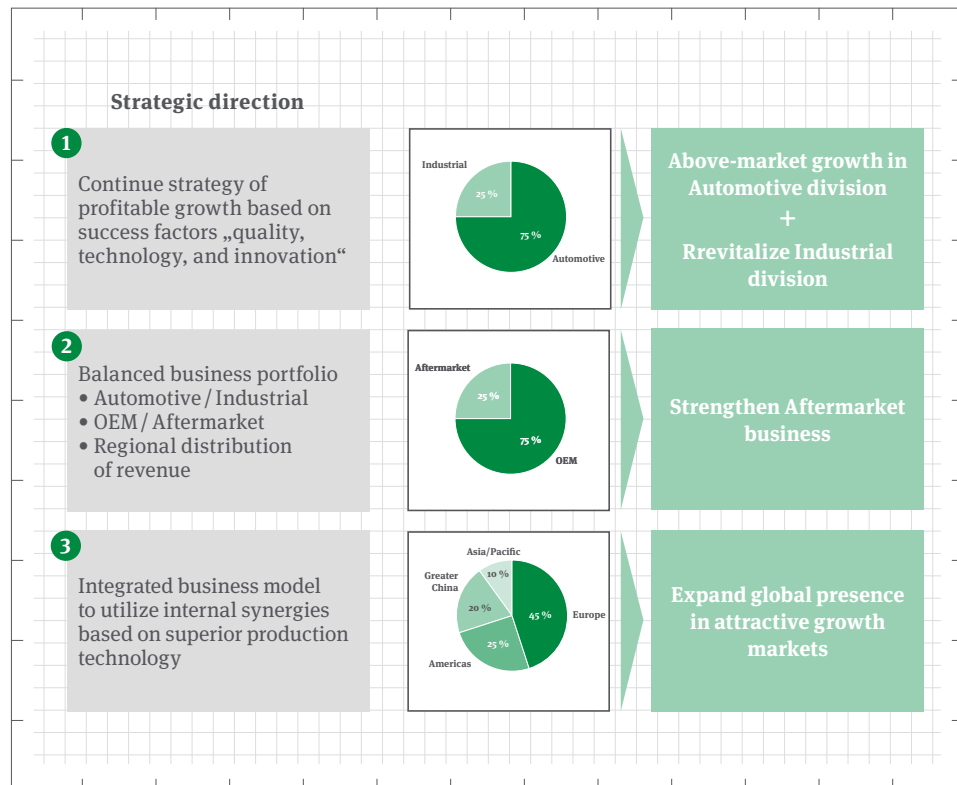
Another of the Schaeffler Group’s strategic objectives is a balanced business portfolio: The medium-term target ratio of revenue of the Automotive/Industrial divisions is approximately 75:25. Key to achieving this target is the success of the realignment of the Industrial business.

In addition, the Aftermarket business aims to again contribute approximately 25 % of the Schaeffler Group’s total revenue by 2020. This target can only be met if the company consistently takes advantage of its growth opportunities within Europe, particularly in the growth regions.

Another strategic objective related to moving towards a balanced business portfolio is achieving regional revenue distribution of approximately 45 % in Europe, approximately 25 % in Americas, approximately 20 % in Greater China, and approximately 10 % in Asia/Pacific by 2020. This also requires the continued focused expansion of the Schaeffler Group’s global presence in attractive growth markets, especially in the Greater China and Asia/Pacific regions. Approximately one third of all capital expenditures (capex) made in the last twelve months went to the Greater China and Asia/Pacific regions.

**Strategic objectives**

No. 019





In line with its “in the region – for the region” approach, the Schaeffler Group is opening or expanding local plants. The plant in Rayong, Thailand is currently under construction. The plant in Ulyanovsk, Russia, has commenced operations. In addition, the cornerstone was laid for a new plant in Svitavy, Czech Republic.

As part of its global growth strategy, the company is also gradually expanding its product portfolio around the world, enabling it to offer its customers an even greater multitude of solutions. The Schaeffler Group plans to further diversify its products across various markets in order to minimize dependence on individual markets. This approach also involves expanding its expertise in offering system solutions and services. The company aims to remain among the top 3 competitors in the relevant new and existing markets.

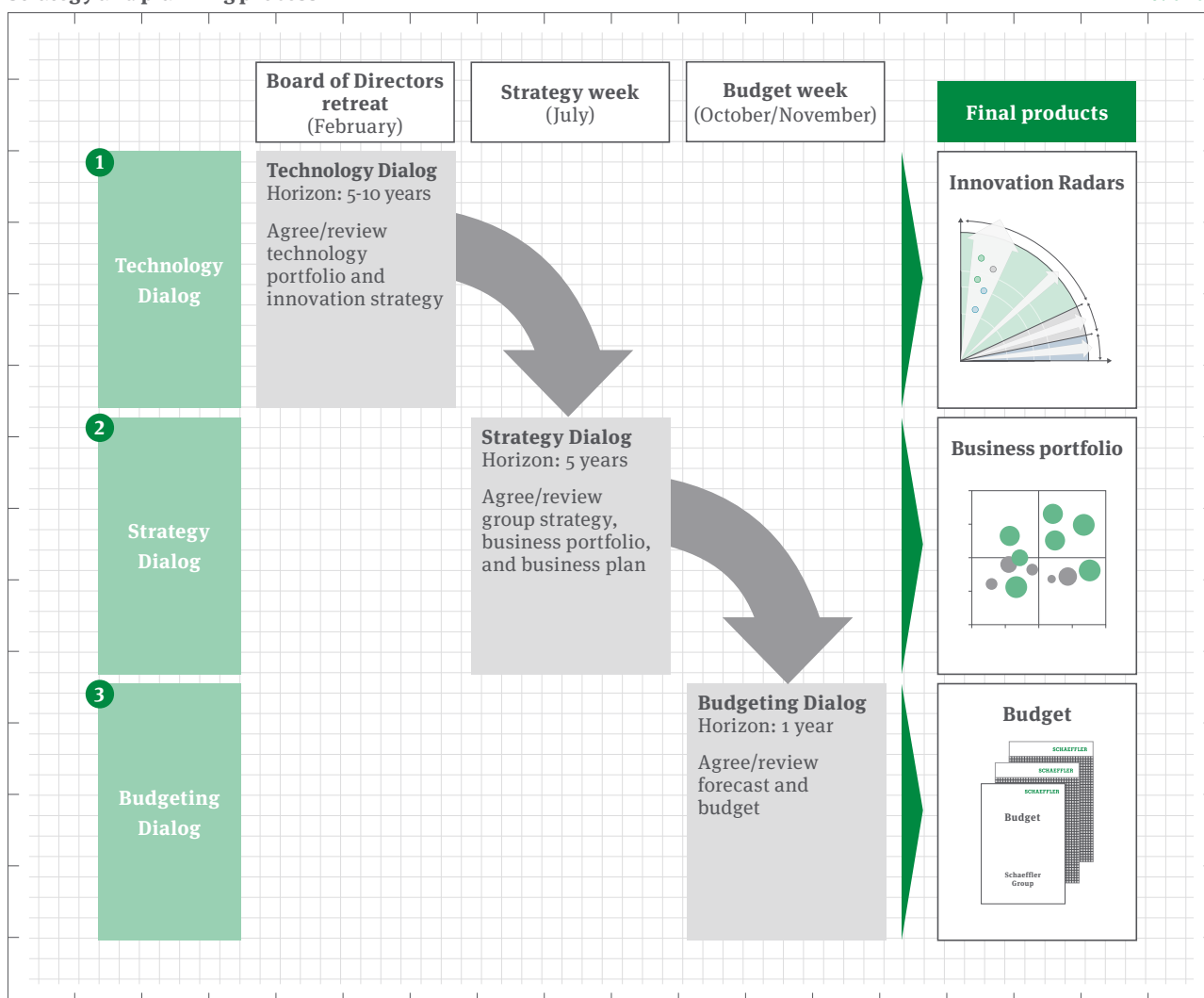
The Schaeffler Group’s growth strategy is founded on making targeted investments in research and development as well as in its production system. Maintaining an adequate debt to EBITDA ratio and generating appropriate positive cash flow provide the financial flexibility these investments require. Therefore, the Schaeffler Group’s decisions are always made with a clear focus on cash flow.

## Strategy and planning process

The strategic concept “Mobility for tomorrow” is operationalized in an annual strategy and planning process. In 2015, the Schaeffler Group has implemented a new strategy and planning process comprising three key components, the (1) Technology Dialog, (2) Strategy Dialog, and (3) Planning Dialog, which sequentially build on each other.

Strategy and planning process

No. 020



The Technology Dialog takes place in February of each year and primarily deals with the megatrends and the resulting impact on technology and innovation. The time frame considered is five to ten years into the future. Based on the information developed, an “Innovation Radar” is approved containing and prioritizing the initiatives aimed at securing the Schaeffler Group’s profitable growth over a period of five to ten years. However, this requires investing in intangible assets and property, plant and equipment and starting research and development activities early on. The initiatives approved in the Technology Dialog are further refined during preparation for the Strategy Dialog.

The Strategy Dialog takes place mid-year. It focuses on the Schaeffler Group’s business strategy (incl. business plan) for the coming five years, the substrategies for the divisions with their strategic business units, the regions, and the functions. A detailed market analysis and an analysis of the initial internal position represent the starting point. Building on these, strategic initiatives are developed from which an indicative business plan can be derived. As part of the process, the various substrategies are coordinated with each other, prioritized, supplemented where necessary, and developed into an integrated strategy for the Schaeffler Group. This strategy is then documented in what is known as the “Roadmap 2020”. In order to ensure that the agreed-upon strategic initiatives can be adequately implemented and potentially emerging barriers eliminated early on, the most important initiatives are combined in the “4 plus One” agenda and an appropriate monitoring is set-up within the Board of Managing Directors.

The results of the Strategy Dialog form the starting point for deriving the top-down objectives for the coming budget year. In the subsequent bottom-up process, the objectives are broken down in detail, validated on a bottom-up basis and the overall plan adjusted if necessary. During the Budgeting Dialog in October, the Executive Board approves the detailed budget for the first planning year.

The results of the strategy and planning process are presented and approved at the following meeting of Schaeffler AG’s Supervisory Board. The results of the planning process represent the starting point for the performance indicators discussed in the report on expected developments and become part of the agreed-upon objectives of the Managing Directors and management.

## Group management

Schaeffler AG's Board of Managing Directors is directly responsible for managing the Schaeffler Group, setting objectives and the strategic direction, and managing the implementation of the growth strategy. The Supervisory Board of Schaeffler AG appoints, supervises, and advises the Board of Managing Directors.

In the context of the three-dimensional matrix organization, the Schaeffler Group's management managed the group's business activities primarily based on its divisions and business divisions, which are treated as profit centers and are responsible for business operations and earnings worldwide, in 2015. The functions are managed as cost centers. In addition to divisions and functions, the Schaeffler Group also divides its business into regions which are each managed by a Regional CEO. The Schaeffler Group's regions are managed as profit centers and divided into subregions and countries.

Since January 01, 2016, the Industrial division is primarily managed based on the regions Europe, Americas, Greater China, and Asia/Pacific. On August 10, 2015, Schaeffler AG's Board of Managing Directors decided to realign the company's Industrial division. The Industrial business is primarily managed on the basis of regions and no longer based on business divisions and business units as was previously the case. The alignment along business unit lines will be maintained in addition to the primarily regional management approach.

The Schaeffler Group's internal management system consists of the annual budget developed based on the strategic framework specified by the Board of Managing Directors, ongoing monitoring and management of financial performance indicators, regular meetings of the Board of Managing Directors and of management, as well as reports provided to the Supervisory Board of Schaeffler AG. Ongoing monitoring and management is based on a comprehensive system of standardized reports on net assets, financial position, and earnings. Discussions at the meetings of the Board of Managing Directors and of management address the results of operations, including the achievement of targets and objectives, as well as the outlook for the year as a whole and any action that may be required.

## Value-based management

The Schaeffler Group manages its business portfolio based on value. The most significant measures used are the strategic performance indicators ROCE (return on capital employed)<sup>1</sup> and Schaeffler Value Added<sup>2</sup>. ROCE represents the relationship of EBIT to average capital employed in operations (capital employed) and measures earnings generated in relation to capital employed. As the ROCE performance indicator measures long-term performance, it is not used to manage the Schaeffler Group's operations. Schaeffler Value Added, which is closely linked to ROCE, is calculated as EBIT less the cost of capital. It represents a key performance criterion within the framework governing the variable short-term remuneration of the Board of Managing Directors and the remuneration at the next-lower levels of management (see "Value management" on page 83).

<sup>1</sup> EBIT in relation to average capital employed (property, plant and equipment + intangible assets + working capital).

<sup>2</sup> EBIT less cost of capital (average capital employed × weighted average cost of capital).

## Schaeffler Group performance indicators

The performance of the Schaeffler Group's business is based on a long-term growth strategy. Group management ensures that the Schaeffler Group is growing profitably while utilizing capital efficiently. Therefore, significant emphasis is placed on the performance indicators revenue growth and EBIT margin. Traditionally, the Schaeffler Group's growth has been financed from internal sources. The primary performance indicator of the group's ability to generate internal financing is free cash flow.

The Schaeffler Group focuses on continually monitoring and optimizing the following three key financial operating performance indicators to measure the economic performance of its business:

- Revenue growth
- EBIT margin
- Free cash flow

The capex ratio is not among the Schaeffler Group's key financial operating performance indicators. This ratio is primarily used to monitor operations and is not used to manage the Schaeffler Group's business processes.

All financial indicators are calculated on a monthly basis using standardized reports on earnings, financial position, and net assets. These reports contain a comparison of budget vs. actual as well as a prior year comparison. The comparison of budget vs. actual is based on the annual budget flowing from the integrated operating budget embedded in a longer-range strategic corporate plan established by the Board of Managing Directors.

The management remuneration system takes these financial performance indicators into account in determining variable short- and long-term remuneration.

The Board of Managing Directors managed the Schaeffler Group's business processes using financial performance indicators in 2015. The company uses additional key non-financial indicators with respect to the plants, to quality, and to human resources that are also calculated using standardized reports and monitored by management during the year.

## 1.4 Employees

Megatrends will fundamentally change the working world. Globalization, individualization and demographic change pose great challenges to employers. The Schaeffler Group already has to take appropriate action now in order to secure its attractiveness as an employer in the future. The key is developing tomorrow's human resources tools today. In the future, the distinction between work and private life will become increasingly blurred. Companies have to provide more flexible working environments and methods and adapt them to the expectations of future generations. This is a critical competitive success factor.

In addition, Industry 4.0, digitalization and big data are opening up new dimensions of linked data and information, modes of communication, and knowledge transfer, requiring new models of social and corporate networking, communication and collaboration. The human resources function represents a key factor for people living in this digitalized and process-oriented working world of tomorrow.

Its employees represent one of the key pillars of the Schaeffler Group's success. Their technical knowledge, skills and commitment secure the continuous progress of the company and are essential to the Schaeffler Group's current and future success. The objective of the company's human resources activities is to identify, support, and retain the best employees for the long term in order to safeguard Schaeffler's competitive position.

### Human resources strategy

The Schaeffler Group's human resources strategy was developed and designed as part of a company-wide Strategy Dialog. In this dialog, the requirements of all business and functional units are incorporated into the human resources strategy. As part of this strategy the company has defined what is known as the HR Roadmap 2020. Human resources (HR) initiatives were derived based on a project portfolio. Key initiatives are discussed below.

In 2015, the company's high-priority "Talent management & leadership skills" HR initiative advanced the group's talent management in order to support talents and provide employees at all levels with attractive career paths and job perspectives. In the future, attention will focus much more on supporting and developing employees in production.

The "New workplace and flexible/mobile working conditions" HR initiative scrutinizes current job models. It aims to develop more flexible job models and improve the framework and environment for mobile work conditions.

The “Demographics and workplace health management” HR initiative focuses specifically on developing an appropriate framework and environment for employing older workers. The company’s preventive health care activities and numerous offerings to promote Schaeffler Group employees’ health deserve particular notice.

Recruitment is addressed by the Schaeffler Group’s “Employer branding” HR initiative, which is designed to strengthen the image and prominence of the Schaeffler employer brand.

The “Employer of choice” HR initiative develops and introduces attractive and competitive compensation models. A global job grading project was run in 2015.

Successfully implementing the HR initiatives and actions derived from the Schaeffler Group’s human resources strategy requires committed and highly-qualified employees. The basis for this consists of:

- recruiting,
- personnel development, and
- health management and occupational safety.

## Recruiting

In the competition for the best staff, the Schaeffler Group wants to position itself as an attractive employer worldwide and attract qualified talent. The Schaeffler Group is already among the 50 most attractive employers for newly-qualified engineers in Germany.

The Schaeffler Group focuses on online channels when it comes to approaching potential applicants. In 2015, the company initiated its first global careers website to supplement the country-specific websites, and features job openings from all its regions on that site. This focus was also demonstrated by the company’s first Potentialpark Award received in 2015. Each year, Potentialpark, a global market research company, analyzes the career-related online activities of selected companies. In the online talent communication study, the Schaeffler Group ranked 23<sup>rd</sup> in all of Germany, an improvement of 15 ranks from the prior year. The company’s online application process even came in 15<sup>th</sup> in the category online application.

Asia represents another recruiting focus for the Schaeffler Group. Take, for example, the Schaeffler Talent Open Day in April 2015: The Schaeffler Greater China HR team initially visited the Chinese Talent Days in Cologne, Germany, to get Chinese students interested in joining Schaeffler China and to identify talents. The next day, the Schaeffler Talent Open Day was held in Herzogenaurach, Germany, with introductory presentations, group exercises, and individual interviews. The event resulted in 16 participants signing a contract with Schaeffler China Co. Ltd. The Schaeffler Group’s significant improvement in competing for very high-quality candidates in China and its position as an attractive employer there is demonstrated, among other things, by the “Top Employer China 2016” award it received from the “Top Employer Institute” in December 2015.

In addition, the Schaeffler Group cooperates with universities around the world to attract qualified students to the company. Of particular significance in this regard is “Formula Student”, a student racing series that involves university teams designing and building a race car themselves and then racing each other in international competitions. Formula Student provides a platform for students to test their newly learned engineering knowledge in practice and in competition, while at the same time developing a comprehensive understanding at many levels. The Schaeffler Group supports teams around the world and is also the main sponsor of the events in Germany, Brazil, Italy, and Spain.

In addition to presentations at recruitment fairs, the Schaeffler Group has also been using industry trade shows such as the Hanover Fair (HMI) or the International Motor Show (IAA) to position its employer brand and recruit new staff.

## Personnel development

### Schaeffler Group talent management

One of the key responsibilities of talent management is the personal development of each and every employee within the company. To the Schaeffler Group, talent management is a systematic approach to providing salaried personnel with specific opportunities for development, identifying high-potential staff, and protecting key positions.

The talent management process was standardized worldwide as part of the “global talent management” HR initiative over the course of 2014 and 2015, and divided into three interrelated phases: the employee development dialog, the supervisor meeting, and realization. In this regard, the talent management cycle represents the basis of a year-round personnel development process.

The employee development dialog is a feedback and management tool and represents the basis for the supervisor meeting. In a one-on-one meeting, supervisor and employee discuss behavior, performance, potential, and technical skills. A tailored development plan is an optional component helping to specify and plan the employee’s personal development. The results of this one-on-one meeting are the basis for discussion at the supervisor meeting. Supervisor meetings are held at the divisional, regional, and functional level, reflecting the organizational structure of the Schaeffler Group. The meetings are designed to facilitate thorough discussions across departmental lines with the objective of identifying and confirming high-potential employees, initiating individual development and performing succession planning. In the implementation phase, agreed upon development activities are approved and started.



## Managers as talent managers

The company considers its managers to be the talent managers of their own staff. Open and constructive feedback is the basis for a trusting working relationship and for the personal development of both employees and the managers themselves.

A new “talent management toolbox” developed in 2015 contains feedback and management instruments and offers tools for promoting individual development as well as for identifying and specifically developing high-potential employees. Dedicated workshops providing an opportunity to practice using these new talent management tools were developed in order to train managers in the use of these tools and to communicate changes and innovations in talent management.

## Specialist and project career paths

As a company with operations worldwide, the Schaeffler Group not only requires line managers, but also especially needs highly motivated and qualified specialists as well as full time project managers who combine extensive technical expertise and key know-how with outstanding project management skills.

To meet this need, the company has developed transparent and global career programs that consist of the following elements: uniform career stages worldwide with set tasks and responsibilities, job specifications and perspectives for development.

Following the talent management process, nominated employees are approved for the career path or for the next higher stage within the career path in (semi-) annual career committee meetings.

Since the introduction of the global project career path (2012) and the global specialist career path (2013), 34 project managers and 247 specialists were accepted into the career paths in Germany alone. This represents a total increase of 32 % in 2015 compared to the prior year.

## Employee qualification and continuing education

As strategic human resources planning has to take into account new requirements and skills early on, supporting employees and helping them gain additional qualifications is key to the Schaeffler Group.

3,931 classroom training sessions (prior year: 3,709) attended by 36,485 participants (prior year: 31,661) were held in Germany in 2015.

In addition, 63 different e-learning courses were offered to staff and were taken by 18,068 employees (prior year: 39 e-learning courses offered; 24,753 participants). With the expansion of its online training program, the Schaeffler Group follows the trend towards making continuing education courses available to employees anytime anywhere.

### Employee qualification and continuing education

No. 021

Number in Germany	12/31/2015	12/31/2014	Change in %
Classroom training sessions	3,931	3,709	6.0
Participants – classroom training sessions	36,485	31,661	15.2
E-learning courses	63	39	61.5
Participants – e-learning courses	18,068	24,753	-27.0

The Schaeffler Group's range of continuing education courses is consolidated worldwide under the umbrella of the Schaeffler Academy. Germany, Brazil, Romania, France, and the U.S. are now using common IT standards which make it possible to transparently present the continuing education course program to all employees. The Schaeffler Academy offers not only standard qualifications, but also tailored, specific, and interdisciplinary qualifications.

Of note here are the two management programs CMP (Central Management Program) and IMP (International Management Program), which were awarded the Certificate of Merit in the Best of HRD Practice category by the International Federation of Training & Development Organisations (IFTDO). The two programs, both with a global focus, provide training in Schaeffler-specific intercultural management skills as well as company-specific information on strategy development, making them pivotal in achieving medium- to long-term business objectives.

## Supporting new talents

Attracting and training new talents in all areas is essential to ensuring Schaeffler's long-term success. 2,897 trainees (or 3.4 % of the Schaeffler Group's workforce) were pursuing an apprenticeship at the Schaeffler Group (prior year: 2,735 or 3.3 % of the workforce) as at the end of 2015. The number of trainees has thus grown by approximately 5.9 % compared to the prior year. These future specialists are trained in a total of 21 specific jobs requiring formal training at various Schaeffler Group locations. In addition to technical qualifications and Schaeffler-specific know-how, the Schaeffler Group's training particularly values methodological, social, and personal skills. Training at Schaeffler is aimed at teaching young employees to think and act independently, promoting their creativity, and strengthening their environmental awareness and sense of responsibility.

Cooperative education programs (“Duales Studium”) play another important role in attracting new talents in Germany. Schaeffler offers various types of these programs of academic studies, such as a “Duales Studium” in cooperation with colleges offering this type of cooperative education program (“Duale Hochschulen”) or a “Two-in-One” program in cooperation with universities of applied sciences in Germany. A total of 150 students were enrolled in the “Duales Studium” and 196 in “Two-in-One” bachelor programs in 2015. The company also operates another program leading up to a master’s degree.

In addition, the Schaeffler Group offers special trainee programs to above-average university graduates, enabling them to gain a comprehensive overview of the group and its functional areas over a period of 12 to 24 months. The accompanying qualification measures aimed at personal development ideally prepare these trainees to take on positions carrying responsibility within the Schaeffler Group. In Germany, for instance, 46 young talents (prior year: 52) were enrolled in this trainee program as at December 31, 2015. Similar programs operate in many countries around the world, including in the U.S.

## Health management and occupational safety

As a result of demographic change, the company has to develop effective preventive health care programs for its aging workforce. The workplace health care management in place is an important component of the HR initiatives.

Signing the “Luxemburg Declaration on Workplace Health Promotion in the European Union” also demonstrated the Schaeffler Group’s commitment to its corporate responsibility with respect to preventive health care and occupational safety.

Occupational health and safety help maintain the health and performance of employees. As a result, they represent an important issue for which the company and its employees bear equal responsibility. In order to protect and promote employee health, working conditions and compliance with occupational safety requirements are continually reviewed and improved as part of the EnEHS management system (Energy Environmental Health and Safety).

In addition, the Schaeffler Group promotes its employees’ health-at-work-related skills and awareness and maintains long-term employability by continuously building its structured workplace health management program.

During the reporting period, the Schaeffler Group started the “pit stop” (“Boxenstopp”) health program, a scheme to prevent the main causes of absenteeism. “Pit stop basic – 15 minutes for your health” is available to all employees; it involves a short check-up providing employees with a comprehensive overview of the state of their health and a personal conversation to plan any medical procedures or lifestyle changes that might be necessary.

In addition, the Schaeffler Group’s occupational health management program is also aimed at offering employees with existing health issues, such as musculoskeletal disorders, targeted measures on a voluntary basis over and above those offered by the public health care system to ensure their long-term health. The program’s strong emphasis on a long-term perspective is demonstrated by its “Pit stop trainees” component, which the company began offering at its

Schweinfurt location this year. “Pit stop trainees” involves using training courses and activities to coach trainees on issues related to nutrition, exercise, and life with shift work from the first year of their apprenticeship. In addition, Schaeffler’s ergonomically designed work spaces are laying the foundation for the company’s long-term success.

The company again fielded its comprehensive health management at the Schweinfurt location in the Corporate Health Award in 2015, underlining the importance of health management to the Schaeffler Group.

## Number of employees and structural data

The Schaeffler Group employed an average of 83,930 employees (prior year: 80,768) in 2015. The number of employees at December 31, 2015 was 84,198, 2.3 % above the prior year level. The company recruited new personnel compared to December 31, 2014 primarily in production and production-related areas – mainly in the Greater China and Europe regions, especially in Central and Eastern Europe. In the Americas region, a decrease in the headcount in South America was more than offset by a significant increase in North America, primarily in the U.S.

### Number of employees – December 31

No. 022

	12/31/2015	12/31/2014	Change in %
Europe <sup>1)</sup>	58,600	57,607	1.7
Americas	12,625	12,229	3.2
Greater China	10,216	9,741	4.9
Asia/Pacific	2,757	2,717	1.5
<b>Schaeffler Group</b>	<b>84,198</b>	<b>82,294</b>	<b>2.3</b>

<sup>1)</sup> Including employees of the headquarter.

The following table summarizes data on the structure of the Schaeffler Group’s global workforce:

### Workforce – structural data

No. 023

	12/31/2015	12/31/2014	Change
Average age (years)	39.7	39.4	0.8 %
Average tenure (years)	11.1	10.9	1.8 %
Proportion of female employees (%)	21.0	21.0	0.0 %-pts.
Proportion of female managers (%) <sup>1)</sup>	11.4	11.2	0.2 %-pts.
Absenteeism due to illness (%) <sup>2)</sup>	3.6	3.3	0.3 %-pts.

<sup>1)</sup> Managers are defined as employees in a supervisory function.

<sup>2)</sup> Number of sick days as a percentage of scheduled working days.

The average period employees have been with the Schaeffler Group (tenure) amounted to 11.1 years in 2015 (prior year: 10.9). The average age of the Schaeffler Group's workforce was 39.7 years (prior year: 39.4).

For the Schaeffler Group, diversity is closely related to the company's success, since international teams heterogeneous in terms of age and gender are particularly successful. The proportion of women among the Schaeffler Group's employees remained unchanged at 21.0 % in 2015, and the proportion of female managers was 11.4 % (prior year: 11.2 %).

On September 20, 2015, the Board of Managing Directors set targets for the proportion of females at the two levels of management immediately below the Board of Managing Directors in accordance with section 76 (4) AktG. The targets are 5 % for the first level of management and 12 % for the second level of management, to be achieved by June 30, 2017.

## 1.5 Corporate responsibility

Managing the company with integrity and living up to its corporate social responsibility are of the highest importance within the Schaeffler Group's corporate culture. The Schaeffler Group's sustainable manner of conducting business is based on fairness, mutual respect, and integrity. Taking into account ecological and social criteria along the entire value chain and reducing the consumption of resources are firmly anchored in the Schaeffler Group's corporate management principles.

It is very important to the company to combine economic success with acting sustainably and responsibly towards its customers and suppliers as well as the environment and its employees. The focus here is on quality, technology, and innovation. With its high-quality products and sustainable system solutions, the Schaeffler Group is helping its customers meet the expectations of changing markets while assuming responsibility for protecting the environment.

The Schaeffler Group is also creating sustainable value by continually improving its own operational processes and by being committed to its employees and its social environment. In this manner, the company is reinforcing people's trust in the company and its technologies, strengthening the Schaeffler Group's standing and position, not least in the financial markets.

Understanding people's needs and mutual trust represent the basis of the Schaeffler Group's long-term success. The company places such trust in its employees, business partners and all other stakeholders. The orientation towards corporate responsibility that is rooted in the group bolsters the Schaeffler Group's fitness for the future.

### Schaeffler Group sustainable management

The Board of Managing Directors of Schaeffler AG is aware of the significance of sustainability for the company's success and future, and intends to make the Schaeffler Group even more sustainable going forward. Therefore, the company is fully committed to the ten principles of the United Nations Global Compact and advocates their implementation within the company and its sphere of influence. To this end, the company has established effective management tools and created new responsibilities:

The Schaeffler Group's Code of Conduct was fundamentally revised in 2015. It requires all of the company's employees to take into account ecological and social criteria along the entire value chain and to minimize the use of resources.

In addition, the Schaeffler Group has implemented a materiality process which consists of an annual materiality analysis performed in cooperation with key stakeholders in order to identify and weight the Schaeffler Group's key sustainability issues and to integrate them into

the company's decision processes. In 2015, the Schaeffler Group is publishing its commitment, activities, and management tools related to these issues for the first time in a sustainability report in accordance with the G4 guideline of the Global Reporting Initiative (GRI).

Also new is the Schaeffler sustainability organization, comprising a Sustainability Board responsible for developing the sustainability strategy, an operating Sustainability Office, and the technical sustainability department, which fulfills a consulting and coordinating role. The sustainability organization reports directly to the Schaeffler Group's Board of Managing Directors, giving it a high standing within the overall organization.

## Customers & products

### Product & technology development

For the Schaeffler Group, sustainability also means helping new technologies gain acceptance – particularly those technologies which contribute to a cost-efficient and reliable energy balance with low impact on the environment and that help customers meet their growing challenges such as reducing CO<sub>2</sub> emissions and rising fuel costs.

For this purpose, the Schaeffler Group is taking action by developing new product technology for the “Mobility for tomorrow”: The Schaeffler Group invests extensively in researching and developing, for instance, the electrification of drives, chassis components or cost and resource-efficient reconditioning of used bearings. Schaeffler takes a comprehensive approach to managing the product life cycle:

All stages of the life cycle, from product design, validations and manufacturing through to product use and disposal or reconditioning are scrutinized and reviewed for potential improvements in resource and energy usage. Research and Development, which is in charge of this process, has amended its organizational structure to accommodate this responsibility and has further expanded its systems expertise. Please refer to the chapter on research and development on pages 12 et seq. for further detail.

A long-term relationship with the customer characterized by trust, transparency, and cooperation is a key success factor. The Schaeffler Group's customers expect solutions for more energy and CO<sub>2</sub> efficiency, safety, compliance with regulatory requirements, cost savings, sustainable materials, recyclability and much more. As challenges like these can only be overcome by joining efforts with the customer, open and solutions-driven cooperation with the customer is very important to the company. Openness and transparency help in further improving this cooperation and speeding up processes.

### Responsibility along the value chain

The Schaeffler Group's suppliers can also contribute significantly to a more sustainable product portfolio. The company motivates and supports them in this endeavour and uses its supplier management to work towards having value chains designed more sustainably. The following priorities were set in 2015:

- developing a Supplier Code of Conduct
- integrating additional specifications regarding environment, health, and safety (EHS) into the group procedures “commodity-specific specifications” and “potential analysis”, which are used to select and approve suppliers
- developing selected suppliers with respect to environmental and occupational health and safety issues
- adjusting compliance due diligence processes for dealing with business partners and suppliers to accommodate sustainability standards
- compliance with legal restrictions and customer-specific requirements with respect to purchasing undesirable chemicals and conflict minerals.

## Environment & energy

Environmental protection and increasing energy efficiency and, as a result, reducing greenhouse gas emissions are further pillars of the Schaeffler Group's commitment to sustainability. The company's key tools for protecting the environment and the climate are environmental management systems in accordance with the European EMAS (“Eco-Management and Audit Scheme”) Directive and/or the leading global standard ISO 14001. In addition, the company also uses energy management systems based on the ISO 50001 standard at many of its locations to make its operating processes more energy-efficient and cost-effective.

Nearly all manufacturing locations worldwide are validated and certified under EMAS and ISO 14001, respectively. The EMAS certifications granted by independent assessors outside Europe play an extremely important role in international comparison. These successful audits attest to the fact that the Schaeffler Group's locations comply with the highest level of uniform global environmental protection and occupational safety standards. In addition to the plant in Yinchuan, the first Chinese location ever to obtain the European EMAS-validation for its environmental management, four more Chinese plants as well as three plants in Korea and the location in South Africa have been validated and entered into the site register of the European Community. In mid-November 2015, the two Canadian locations also successfully completed validation under EMAS and were entered into the site register in late January 2016. The Schaeffler Group is pioneering the consistent implementation of EMAS in these countries, as well. The Schaeffler Group plans to have all of its manufacturing locations worldwide validated under EMAS and entered into the site register by the end of 2017.



Global demand for commodities – particularly for energy – is constantly increasing. Its steady growth also raises the Schaeffler Group’s need for energy. To counteract this trend, the company has been gradually implementing an energy management system meeting the global ISO 50001 standard at its locations since 2012. Schaeffler followed along its chosen path by obtaining certifications of 27 further Schaeffler Group locations this year, bringing the worldwide total to 48 by the end of 2015.

The Schaeffler Group’s energy management system is based on its energy policy which sets out, among other things, the commitment of the Board of Managing Directors and all employees with respect to energy efficiency and saving resources, acting sustainably, and continuously improving the system. The Schaeffler Group has derived the following three strategic energy objectives from this policy:

- increasing energy efficiency
- optimizing energy costs
- ensuring security of supply of energy and media

These strategic energy objectives represent the basis of the operational energy goals provided to the Schaeffler Group’s production locations annually. In order to continually increase the energy efficiency of its plants, energy efficiency workshops are regularly held as part of the energy management in which plants, machinery, and processes are reviewed for potential improvements and participants then develop measures to be taken for improvement.

Another elementary aspect of the Schaeffler Group’s energy management is the standardized energy data management system (EDMS) which has been rolled out worldwide and provides several benefits:

- provides transparency with respect to the energy consumption of plant and machinery
- monitors energy consumption and detects possible savings
- documents the effectiveness of energy efficiency measures
- forecasts future energy consumption
- prepares energy balance sheets for locations and regions

## Employees

Satisfied, motivated and performance-oriented employees represent a cornerstone of the Schaeffler Group's worldwide success. Therefore, the Schaeffler Group's human resources strategy is driven by the objective of making employment at the company attractive – now and in the future – to young talents as much as to employees that have been with the company for many years. Therefore, the HR Roadmap 2020 initiatives developed as part of the company's human resources strategy focus not only on recruiting, personnel development, health management, and occupational safety (see “Employees” on pages 34 et seq.), but also on employee's work/life-balance as well as compensation and retirement benefits.

In 2015, the Schaeffler Group introduced a team leader concept in production that is unique to the industry. The new management level enables the Schaeffler Group to more extensively utilize its employees' knowledge and creativity while creating new opportunities for them to make a difference as well as career opportunities aiding employee satisfaction.

Having a family-conscious personnel policy is very important to the company. For instance, work/life-balance is a key component of the Schaeffler Group's Code of Conduct, which was reissued in 2015. The “new work place and flexible/mobile working conditions” HR initiative, which is part of the HR Roadmap 2020, also focuses on moving this issue forward.

The Schaeffler Group already offers a range of working hours schemes such as part-time and partial retirement arrangements as well as asynchronous shift arrangements for spouses both employed in production. In late 2015, the company entered into a Germany-wide agreement with its employees governing working at home, which provides employees with more flexibility in their daily routines. In addition, the Schaeffler Group supports parents at several German locations in their childcare responsibilities by providing day-care, a children-at-work-office, and specific childcare-related offerings during school holidays.

The Schaeffler Group also provides its employees with retirement benefits. To cover potential pension shortfalls, the company offers its employees attractive retirement benefit schemes financed by the employer and/or the employee. The new retirement benefit portal established in April 2015 offers personal accounts with secure access providing employees with extensive information about various retirement benefit schemes, and with the opportunity to use current data and variable simulation parameters to take a look at the income they can expect to receive from the various retirement schemes.

## Corporate citizenship

Good corporate citizenship is embedded in the Schaeffler Group's core. Its global presence gives Schaeffler the opportunity to help shape the social environment and promote intercultural dialog at its company locations around the globe. The Schaeffler Group shows its commitment to the key areas of education and science, health and social affairs, and sports and cultural events in numerous ways all over the world. The Schaeffler Group attempts to generate social added value, both regionally and globally, through various initiatives, cooperations, donations and scholarships and to overcome social challenges together with its employees. 2015 saw the Schaeffler Group once more supporting numerous social projects.

The Schaeffler Group received multiple awards for its good corporate citizenship in Brazil. The awards honored numerous activities dealing with environmental, health, and safety issues, as well as the contribution made by Formare Schaeffler School, which offers an education and job opportunities to young people in the industrial city of Sorocaba and helps integrate people with disabilities into the company.

In Finland, the Schaeffler Group supports the "Life Education" project aimed at improving the health-related education of children between 3 and 13 years of age. Each year, more than 20,000 children participate in these comprehensive programs, which include counseling on the dangers of consuming drugs.

The Schaeffler Group is also consistently pursuing its education activities in China: Schaeffler Holding (China) Co., Ltd. has been cooperating with Southwest Jiaotong University (SWJTU), one of the leading universities in the field of railway engineering, under the "Schaeffler Engineering Scholarship Cooperative Agreement" since 2001. To date, nearly 100 students have received support under this program. In addition, a "railway bearing" course for masters students was set up as part of the Schaeffler Group's cooperation with SWJTU in order to share experiences and disseminate expert knowledge.

The Schaeffler Group also supports the "BAOBEI Foundation" in China. This cooperation was initiated in cooperation with the Schaeffler International Management Program (IMP). The IMP is a development program for managerial staff in various functions, areas, and regions. Participants use their own skills and networks to provide financial support to a regional project. The BAOBEI Foundation arranges for surgery and postoperative rehabilitation for orphans. The name BAOBEI reflects the foundation's belief that each child is valuable and can make a unique contribution to the world.

In Germany, the Schaeffler Group joined the sponsors of "Wissensfabrik" in 2015: This initiative promotes education and entrepreneurship in Germany by acting as an intermediary between businesses, educational institutions, and science and by arranging educational partnerships.

## 2. Report on the economic position

### 2.1 Economic environment

#### Macroeconomic environment

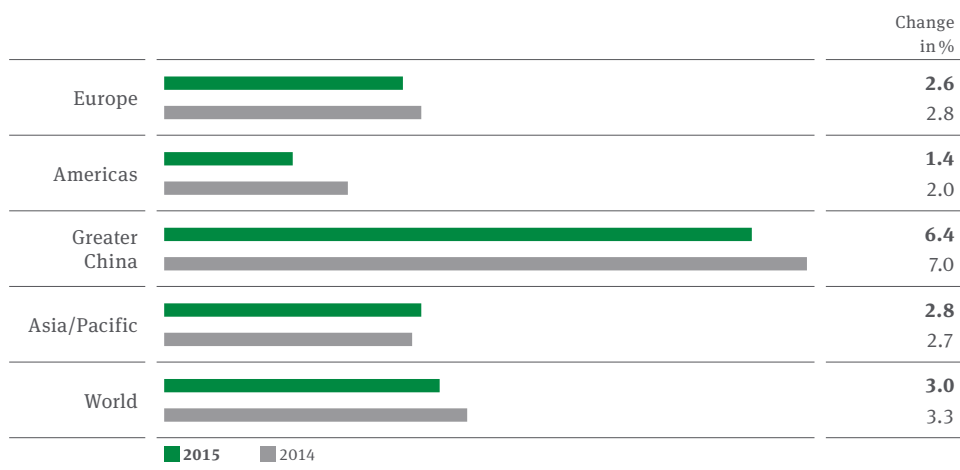
The global economy developed less dynamically than expected during 2015. Global gross domestic product grew by 3.0 % in 2015 (Oxford Economics, January 2016).

The merely moderate expansion is primarily due to the further economic slowdown in key emerging and developing countries. A significant reason for the economic weakness of numerous emerging economies was the slowing growth in China caused by the structural change in that country. Close economic ties mean that the slowing growth in China has noticeably hampered development in other emerging countries, for instance through lower Chinese demand for imports. In addition, the global deterioration in commodity prices, which was partly driven by the development in China, also affected emerging and developing countries dependent on commodity exports, such as Russia and Brazil.

The large western economies experienced a much more favorable trend. Driven by robust demand and dynamic investment outside the oil sector, the economic upturn in the U.S. continued. The euro region saw its economy pick up, with stronger domestic demand and rising exports helping to slightly speed up growth.

**Growth in gross domestic product**

No. 024



Source: Oxford Economics (January 2016).  
 Real gross domestic product calculated based on purchasing power parities.  
 Regions reflect the regional structure of the Schaeffler Group.

Economic growth in the Schaeffler Group’s Europe region amounted to 2.6 % in 2015, albeit varying widely across regions. Gross domestic product for the Euro region as a whole rose moderately. The economic recovery in Germany continued and the Spanish economy stabilized. Despite a gradual recovery in France and Italy, gross domestic product there proved comparatively weak. Russia is experiencing an economic crisis, primarily due to falling oil prices as well as the sanctions and uncertainty related to the Ukraine conflict. India, also part of the Europe region, was able to continue to expand.

In the Schaeffler Group’s Americas region, which grew by 1.4 % overall, the economic trend varied from region to region. While U.S. gross domestic product for 2015 as a whole grew moderately despite a weak first quarter, the Latin American economy shrank under the influence of falling raw materials prices and the negative impact of the deep recession in Brazil.

Momentum in the Schaeffler Group’s Greater China region continued to slow: The economy there grew by 6.4 %, no longer achieving the level of growth seen most recently. The rate of growth in gross domestic product in China dropped just below the 7 % threshold, while the economy in Taiwan slowed down significantly, its growth remaining flat.

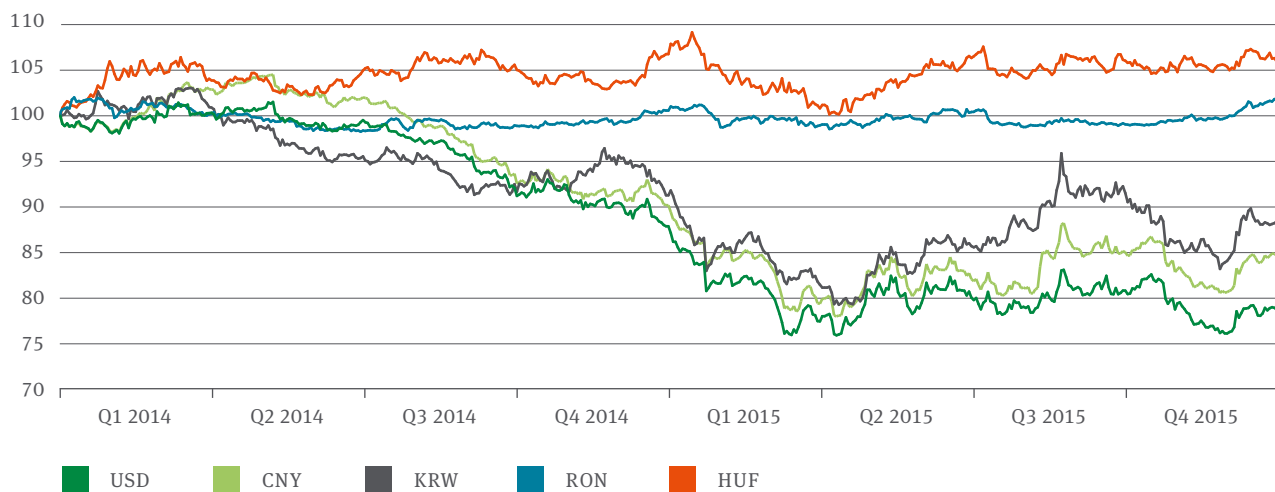
The economy in the Schaeffler Group’s Asia/Pacific region grew by 2.8 %. Japanese gross domestic product remained weak, the economic recovery there is still fragile. The South Korean economy continued to lose momentum; Indonesian economic growth remained considerable despite a slight slowdown in momentum.

In the currency markets, certain exchange rates fluctuated significantly during the year. The weakening of the Euro against the U.S. Dollar, the Chinese Renminbi and the South Korean Won, already noticeable in 2014, continued in early 2015. Over the course of the year, the Euro stabilized against the U.S. Dollar while it rose slightly against the Renminbi and the Won. However, the average rates for the Euro fell significantly below the prior year averages in 2015. The Euro remained largely stable against the Hungarian Forint and the Romanian Leu.

Exchange rate trends

No. 025

EUR against selected currencies (Index: January 01, 2014 = 100)



## Sector-specific environment










### Automobile production

The global business with manufacturers of passenger cars and commercial vehicles represents the group's most important market segment. Global automobile production, measured as the number of vehicles produced, increased only slightly, growing 1.0 % to approximately 88.3 million passenger cars and light commercial vehicles in 2016 (IHS, January 2016).

The Europe region was up considerably (4.7 %), driven by high growth rates in Italy, Spain, and Turkey. After stagnating in the prior year, the Americas region experienced a decline of 1.4 % in 2015, mainly due to a massive slump in Brazil. Greater China region growth came in at 2.0 %, falling significantly behind the growth rates seen recently. Automobile production in the Asia/Pacific region declined by 2.7 % over the course of the year, falling by as much as 5.0 % in Japan.

### Automobile production

No. 026

		Change in %	million units
Europe		<b>4.7</b>	<b>26.5</b>
		3.9	25.3
Americas		<b>-1.4</b>	<b>20.4</b>
		0.8	20.7
Greater China		<b>2.0</b>	<b>23.6</b>
		7.8	23.1
Asia/Pacific		<b>-2.7</b>	<b>17.9</b>
		-0.7	18.3
World		<b>1.0</b>	<b>88.3</b>
		3.1	87.4

■ 2015   ■ 2014

Source: IHS (January 2016).  
Regions reflect the regional structure of the Schaeffler Group.

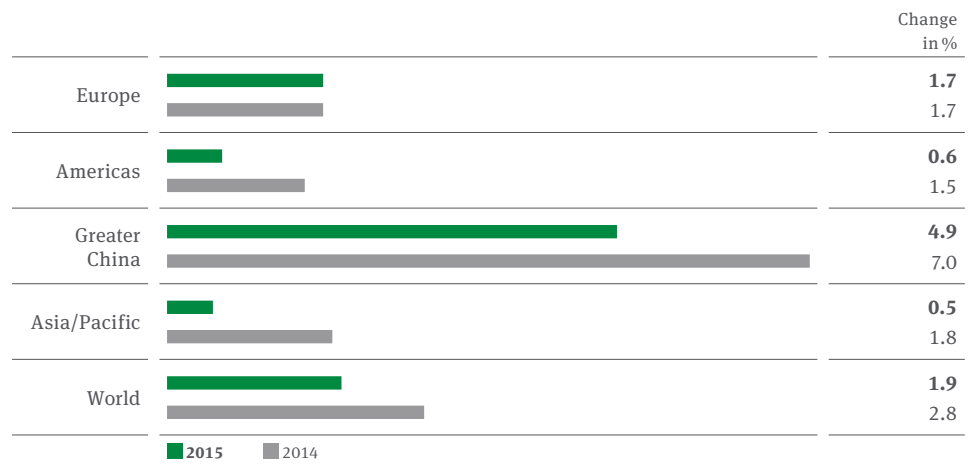
### Industrial production

Preliminary figures indicate that worldwide industrial production, measured as gross value added based on constant prices and exchange rates, grew by 1.9 % in 2015, falling behind the prior year (Oxford Economics, December 2015).

Industrial production in the Europe region was up 1.7 %, with above-average growth in India offsetting a decline in Russia. In the Americas (0.6 %) and Asia/Pacific (0.5 %) regions, the trend stagnated due to negative growth rates in Latin America and Japan, respectively. Although the Greater China region grew by 4.9 %, it was unable to achieve the growth rates it experienced in prior years.

### Industrial production

No. 027



Source: Oxford Economics (December 2015).

Real gross value added in divisions 05 to 39 of the NACE Rev.2 system.

Regions reflect the regional structure of the Schaeffler Group.



## 2.2 Course of business

### Overview of results of operations 2015

Although the economic environment in 2015 was challenging, the Schaeffler Group was able to continue the successful performance of the prior year.

The Schaeffler Group's results of operations were marked by a volatile environment. A weaker market trend in the summer months, particularly in the Automotive business in China and in the worldwide Industrial business, held back the Schaeffler Group's sales growth. On the other hand, the weakening of the Euro against key currencies, especially the U.S. Dollar and the Chinese Renminbi, had a generally favorable effect on sales.

The Schaeffler Group's **revenue** rose to EUR 13,226 m (prior year: EUR 12,124 m) in 2015, an increase of 9.1 % over the prior year. The company's revenue trend benefitted from the currency translation impact of the weaker Euro. Excluding the impact of currency translation, revenue grew by 3.5 %. All four of the Schaeffler Group's regions reported revenue increases excluding the impact of currency translation.

Revenue

EUR 13.2 bn

Automotive division revenue increased by 11.2 % to EUR 9,993 m (prior year: EUR 8,986 m) in 2015. Excluding the impact of currency translation, revenue grew by 5.8 %. Thus, the division has again generated growth significantly higher than the growth in global production volumes of passenger cars and light commercial vehicles of 1.0 %. The OEM business benefitted particularly from the high level of demand for Schaeffler products in the U.S. and strong growth in China in the first half of 2015. In addition, demand in the Asia/Pacific region picked up noticeably during the latter half. The division also profited from significant additional revenue in the Aftermarket business, which generated proportionally higher revenue growth at constant currency than the OEM business.

Industrial division revenue rose by 3.0 % to EUR 3,233 m (prior year: EUR 3,138 m) in 2015. However, excluding the impact of currency translation, revenue declined by 3.2 %. Except for the Greater China region, where demand increased primarily as a result of the upturn in the wind power sector business, revenue excluding the impact of currency translation declined in all regions. The determining factors included the lasting weakness in demand in the oil, gas, and mining sectors as well as in the Aftermarket business, which worsened in the second half of 2015.

**Schaeffler Group revenue by division**

No. 028

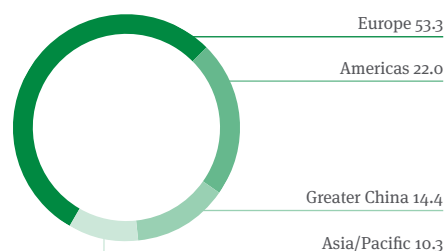
in percent



**Schaeffler Group revenue by region**

No. 029

in percent by market view



**EBIT margin before special items**

12.7 %

The Schaeffler Group's **EBIT** declined by EUR 121 m or 7.9 % to EUR 1,402 m in 2015 (prior year: EUR 1,523 m). Its EBIT margin amounted to 10.6 % (prior year: 12.6 %). In 2015, EBIT was negatively affected by a EUR 238 m provision for legal risks recognized for potential third party claims in connection with the EU antitrust proceedings finalized in March 2014. In addition, the company recognized expenses of EUR 36 m related to the realignment of the Industrial division ("CORE" program) in 2015. This contrasts with an unfavorable impact on earnings related to legal cases in the amount of EUR 38 m in the prior year. Before these special items, the company's EBIT amounts to EUR 1,676 m (prior year: EUR 1,561 m; +7.4 %) and its EBIT margin is 12.7 % (prior year: 12.9 %).

Net income declined by 8.6 % from EUR 662 m to EUR 605 m. Excluding net income attributable to non-controlling interests of EUR 14 m (prior year: EUR 8 m), net income attributable to shareholders of the parent company amounted to EUR 591 m, 9.6 % less than in the prior year (prior year: EUR 654 m). Earnings per share were EUR 0.88 (prior year: EUR 1.29) for common shares and EUR 1.28 (prior year: EUR 1.29) for common non-voting shares<sup>3</sup>.

**Free cash flow**

EUR 370 m

The Schaeffler Group generated **free cash flow** of EUR 370 m in 2015, EUR 322 m more than the prior year amount of EUR 48 m. The main driver behind this is operating cash flow, which has increased from EUR 900 m to EUR 1,372 m despite the prepayment penalty of EUR 173 m (prior year: EUR 114 m) paid in connection with the refinancing transaction. However, the prior year amount was affected by the payment of the EUR 371 m EU antitrust penalty. Capital expenditures increased from EUR 857 m to EUR 1,025 m (+19.6 %) and represent 7.7 % of revenue (prior year: 7.1 %).

The return on capital employed (ROCE) amounted to 18.8 % (prior year: 22.5 %). ROCE before special items was 22.5 % (prior year: 23.1 %), slightly below the prior year. While capital employed increased by 10.4 %, EBIT before special items rose by only 7.4 %. The increase in capital employed is primarily due to higher production-related property, plant and equipment.

<sup>3</sup> Earnings per share was calculated in accordance with the requirements of IAS 33: The newly issued common non-voting shares are included on a proportional basis in the calculation of earnings per share, although their holders are entitled to profits for the entire year. Please refer to Note 3.7 to the consolidated financial statements for the calculation of earnings per common and common non-voting share.

## Significant events 2015

### **Schaeffler AG listing**

Schaeffler AG's common non-voting shares were listed on the Frankfurt Stock Exchange on October 09, 2015. A total of 166 million common non-voting bearer shares were admitted for trading. 66 million of these common non-voting shares were issued in connection with a Schaeffler AG capital increase and 100 million common non-voting shares were sold by Schaeffler Verwaltungs GmbH. At December 31, 2015, approximately 72 million of these shares are widely held by national and international investors. The remaining approximately 94 million shares are held by Schaeffler Verwaltungs GmbH. The free float amounts to approximately 43.1 % of the common non-voting shares. The placement price for the common non-voting shares was set at EUR 12.50 per share on October 08, 2015. Schaeffler AG received gross proceeds of approximately EUR 825 m from the capital increase, which it largely used to repay debt. Schaeffler AG's share capital consists of both the 166 million common non-voting shares and a further 500 million common shares; the latter are held by Schaeffler Verwaltung Zwei GmbH and are not listed on the stock exchange. The free float currently represents approximately 10.8 % of Schaeffler AG's total common and common non-voting share capital. The listing represented an important component of the realignment of the company's capital and corporate structure and represents the basis for the Schaeffler Group's continuing profitable growth. Following a regular review of its small-cap index, Deutsche Börse decided on December 03, 2015 to include Schaeffler AG in the SDAX index effective December 21, 2015. This demonstrates that the Schaeffler shares meet not only the high transparency requirements of the Prime Standard, but also the size criteria regarding market capitalization and liquidity that are relevant for inclusion in this index (see "Capital structure", page 79).

### **Realignment of Industrial business under "CORE" program**

On August 10, 2015, Schaeffler AG's Board of Managing Directors decided to realign the company's Industrial division. The realignment is aimed at improving the efficiency and competitive position of the Industrial business for the long term in order to facilitate profitable growth. The development program is titled "CORE", and its key elements are increased sales growth, enhanced delivery performance and service quality, stronger customer orientation, as well as cost savings and efficiency improvements. In addition to these structural changes, measures taken to optimize the product portfolio and speed up supply to the market will improve the division's competitive position and open up opportunities for further growth (see "Industrial division", pages 8 et seq.).

### **“ONE Schaeffler” program**

The Schaeffler Group’s Executive Board agreed on a portfolio of 20 initiatives (later expanded by a 21<sup>st</sup> initiative) in November 2013 in order to improve the company’s structures and processes, drive forward higher-level business issues, and strengthen inter-departmental cooperation within the Schaeffler Group. The initiatives were combined into a program named “ONE Schaeffler” governing design, implementation, and management using uniform guidelines and criteria. The 21 initiatives were largely completed by the end of December 2015. On December 07, 2015, the Schaeffler Group’s Executive Board decided to end the “ONE Schaeffler” program effective December 31, 2015 as scheduled and to transfer certain initiatives to the “4 plus One” agenda.

### **Refinancing transaction**

On March 26, 2015, the Schaeffler Group announced a refinancing transaction of approximately EUR 1.5 bn which was completed on April 27, 2015. The company placed a total of three bond issues. The placement comprised two secured EUR and one secured USD bond issues. One EUR bond, which has a principal of EUR 400 m, bears interest at 2.50 % and carries a term of five years. The other EUR bond, with a principal of EUR 600 m and a term of ten years, bears interest at 3.25 %. The USD bond with a principal of USD 600 m has a term of eight years and bears interest at 4.75 %. The proceeds of the new bond issues were largely used to redeem two outstanding series of bonds. The company redeemed one series of EUR bonds totaling EUR 800 m and one series of USD-bonds totaling USD 600 m, both bearing interest at 7.75 % and due in February 2017. The proceeds of the transaction were also used to finance the related transaction costs, primarily the prepayment penalty (see “Capital structure”, page 79).

### **Changes in Board membership**

The company made the following changes to its Board of Managing Directors in 2015. At its meeting on December 12, 2014, Schaeffler AG’s Supervisory Board appointed Dr. Ulrich Hauck to the Board of Managing Directors. He assumed the role of Chief Financial Officer of Schaeffler AG from Klaus Rosenfeld on April 01, 2015. Rosenfeld had served as both Chief Executive Officer and Chief Financial Officer since October 04, 2013. At its meeting on April 27, 2015, Schaeffler AG’s Supervisory Board also appointed Dr. Stefan Spindler to the Board of Managing Directors effective May 01, 2015. Dr. Spindler took over responsibility for the Industrial division from Robert Schullan, who resigned effective April 30, 2015. In addition, Schaeffler AG’s Supervisory Board appointed Corinna Schittenhelm to the Board of Managing Directors effective January 01, 2016 at its meeting on October 05, 2015. Schittenhelm assumed the Human Resources function from Kurt Mirlach, who left the company effective December 31, 2015 at the end of his contract. On November 19, 2015, Yvonne Münch and Barbara Resch were appointed to the Supervisory Board as new employee representatives to replace Jürgen Bänsch and Thomas Mölkner (see “Corporate governance”, “Governing bodies of the company”, pages 154 et seq.).

## Results of operations compared to outlook 2015

In its report for 2014, the Schaeffler Group had an outlook regarding revenue growth excluding the impact of currency translation of 5 to 7 % for 2015. Due to a weaker-than-expected market trend during the summer months of 2015, primarily in the Automotive business in China and in the Industrial business worldwide, Schaeffler AG's Board of Managing Directors had reduced its outlook for revenue growth excluding the impact of currency translation to 4 to 5 % in September 2015. The outlook related to the EBIT margin, capex ratio and free cash flow remained unchanged during the year.

### Comparison to outlook 2015

No. 030

	Actual 2014	Outlook 2015	Actual 2015
Revenue growth in % compared with prior year (at constant currency)	9.0 %	4 to 5 % <sup>1)</sup>	3.5 %
EBIT margin (before special items)	12.9 %	12 to 13 %	12.7 %
Capital expenditures as a percentage of revenue (capex ratio)	7.1 %	6 to 8 %	7.7 %
Free cash flow	EUR 48 m	Positive free cash flow, improved compared to 2014	EUR 370 m

<sup>1)</sup> Adjusted to 4 to 5 % on September 21, 2015 (original outlook 5 to 7 %).

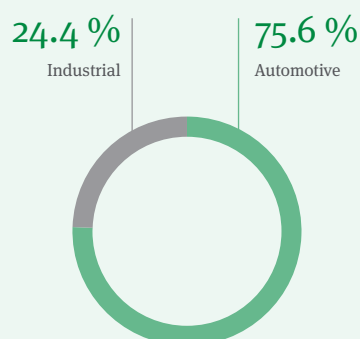
Schaeffler has largely met its financial targets in 2015. The EBIT margin before special items remained high at 12.7 %. Free cash flow of EUR 370 m considerably exceeded the prior year amount, which was affected by the payment of the EU antitrust penalty of EUR 371 m. At 5.4 % and 7.7 %, respectively, the research and development and capex ratios were in line with the outlook. Solely the company's revenue growth at constant currency of 3.5 % was below the target range, which had been reduced to 4 to 5 % from 5 to 7 % on September 21, 2015. This was primarily due to lower than expected growth in the industrial sectors relevant to the Schaeffler Group in the fourth quarter of 2015.

## 2.3 Earnings

### Schaeffler Group earnings

Revenue EUR 13,226 m

EBIT before special items EUR 1,676 m



Positive group-level revenue trend continued: Revenue EUR 13,226 m; growth of 9.1 % p.a. (3.5 % at constant currency) // Revenue largely driven by higher volumes in Automotive // Increased R&D activities to secure new technologies and innovations // EBIT negatively affected by special items

#### Schaeffler Group earnings

No. 031

in € millions	2015	2014	Change in %
Revenue	13,226	12,124	9.1
• at constant currency			3.5
Cost of sales	-9,448	-8,708	8.5
Gross profit	3,778	3,416	10.6
Functional expenses <sup>1)</sup>	-2,047	-1,853	10.5
Earnings before financial result and income taxes (EBIT)	1,402	1,523	-7.9
• in % of revenue	10.6	12.6	-
EBIT before special items <sup>2)</sup>	1,676	1,561	7.4
• in % of revenue	12.7	12.9	-
Financial result	-547	-619	-11.6
Income taxes	-250	-242	3.3
Net income <sup>3)</sup>	591	654	-9.6
Earnings per common non-voting share (basic/diluted, in €)	1.28	1.29	-0.8

<sup>1)</sup> Research and development, selling and administration.

<sup>2)</sup> EBIT before special items for legal cases and restructuring.

<sup>3)</sup> Attributable to shareholders of the parent company.

The Schaeffler Group increased its revenue by 9.1 % to EUR 13,226 m (prior year: EUR 12,124 m) in 2015. Excluding the impact of currency translation, revenue grew by 3.5 %. The Automotive division contributed revenue growth of 5.8 % excluding the impact of translation, once again significantly exceeding global growth in the production of passenger cars and light commercial vehicles of 1.0 %. The Industrial division, on the other hand, reported a decline in revenue of 3.2 % excluding the impact of translation.

All four of the Schaeffler Group's regions generated revenue growth in 2015, albeit bolstered by a considerable favorable impact of currency translation. In Europe, the Schaeffler Group's revenue grew by 2.1 % (1.0 % at constant currency). Revenue increases of 17.5 % (8.2 % at constant currency) in the Americas region and 23.5 % (6.0 % at constant currency) in the Greater China region were particularly significant. The Asia/Pacific region reported growth of 13.5 % (5.0 % at constant currency).

Cost of sales increased by 8.5 % to EUR 9,448 m (prior year: EUR 8,708 m) in 2015. Gross profit was up 10.6 % at EUR 3,778 m (prior year: EUR 3,416 m). At 28.6 %, the company's gross margin was slightly above the prior year level (28.2 %), with both the Automotive and the Industrial division contributing to this increase.

Research and development expenses increased by 15.8 % to EUR 720 m (prior year: EUR 622 m) or 5.4 % (prior year: 5.1 %) of revenue in 2015. This increase primarily relates to expenses for future mobility concepts in the Automotive division and mechatronics, sensors, and digitalization in the Industrial division.

### Research and Development expenses

No. 032

	2011	2012	2013	2014	2015
Research and development expenses (in € millions)	495	593	611	622	720
Research and development expenses (in % of revenue)	5.2 %	5.5 %	5.5 %	5.1 %	5.4 %
Number of research and development staff <sup>1)</sup>	5,465	6,098	6,039	6,387	6,650

<sup>1)</sup> Averages.

Selling and administrative expenses increased by 7.8 % to EUR 1,327 m (prior year: EUR 1,231 m). Besides cost increases due to inflation, the increase is primarily due to a focused strengthening of the selling functions as well as higher freight costs driven by higher volumes. Total functional costs increased 10.5 % to EUR 2,047 m (prior year: EUR 1.853 m), growing to 15.5 % of revenue (prior year: 15.3 %).

EBIT fell by EUR 121 m or 7.9 % to EUR 1,402 m (prior year: EUR 1,523 m). The Schaeffler Group's EBIT margin of 10.6 % was below the prior year level of 12.6 %. EBIT was negatively affected by a EUR 238 m provision for legal risks recognized for potential third party claims in connection with the EU antitrust proceedings finalized in March 2014. In addition, the company recognized expenses of EUR 36 m related to the realignment of the Industrial division ("CORE" program) in 2015. This contrasts with an unfavorable impact on earnings of a provision for legal risks in the amount of EUR 38 m in the prior year. Before these special items, the

company's EBIT amounts to EUR 1,676 m (prior year: EUR 1,561 m) and its EBIT margin is 12.7 % (prior year: 12.9 %). The slight decrease in EBIT margin before special items was mainly attributable to higher investments made in research and development and to higher selling expenses.

The Schaeffler Group's financial result improved by EUR 72 m to EUR -547 m (prior year: EUR -619 m) in 2015.

### Schaeffler Group financial result

No. 033

	<b>2015</b>		
in € millions	Financial expenses	Financial income	Financial result
Interest expense on financial debt	-513	0	-513
Interest income on shareholder loans	0	72	72
Foreign exchange gains and losses	-224	0	-224
Fair value changes and compensation payments on derivatives	6	228	234
Fair value changes on embedded derivatives	-96	17	-79
Interest income and expense on pensions and partial retirement obligations	-42	0	-42
Other	-5	10	5
<b>Total</b>	<b>-874</b>	<b>327</b>	<b>-547</b>

	<b>2014</b>		
in € millions	Financial expenses	Financial income	Financial result
Interest expense on financial debt	-488	0	-488
Interest income on shareholder loans	0	4	4
Foreign exchange gains and losses	-244	0	-244
Fair value changes and compensation payments on derivatives	-5	231	226
Fair value changes on embedded derivatives	-66	11	-55
Interest income and expense on pensions and partial retirement obligations	-51	0	-51
Other	-21	10	-11
<b>Total</b>	<b>-875</b>	<b>256</b>	<b>-619</b>

Interest expense on financial debt of EUR 513 m (prior year: EUR 488 m) for 2015 includes interest of EUR 296 m (prior year: EUR 320 m) paid and accrued on the group's external financing arrangements, prepayment penalties of EUR 173 m (prior year: EUR 114 m) for the redemption of bonds, and amortization of transaction costs, including those incurred in connection with past refinancing transactions, of EUR 44 m (prior year: EUR 44 m).



Interest income on loans to shareholders amounted to EUR 72 m (prior year: EUR 4 m) and resulted from the loans granted in December 2014 and primarily receivable from Schaeffler Verwaltung Zwei GmbH in 2015.

Foreign exchange losses on financial assets and liabilities amounted to EUR 224 m (prior year: EUR 244 m) and resulted primarily from translating financing instruments denominated in U.S. Dollar to Euro (see Note 1.3 to the consolidated financial statements). The company has hedged this financial debt using cross-currency derivatives and reports the resulting offsetting impact of EUR 234 m (prior year: EUR 226 m) under fair value changes and compensation payments on derivatives.

Fair value changes on embedded derivatives, primarily prepayment options for external financing instruments, resulted in net losses of EUR 79 m (prior year: EUR 55 m).

Pensions and partial retirement obligations gave rise to net interest expense of EUR 42 m (prior year: EUR 51 m). See Note 4.10 to the consolidated financial statements for additional details on pensions.

Income tax expense amounted to EUR 250 m in 2015 (prior year: EUR 242 m), resulting in an effective tax rate of 29.2 % (prior year: 26.8 %) The prior year's effective tax rate benefitted from one-time items.

Net income attributable to shareholders of the parent company was EUR 591 m (prior year: EUR 654 m) in 2015.

Basic and diluted earnings per common share declined to EUR 0.88 (prior year: EUR 1.29) in 2015. Basic and diluted earnings per common non-voting share amounted to EUR 1.28 (prior year: EUR 1.29). The number of shares used to calculate earnings per common share and earnings per common non-voting share was 500 million (prior year: 421 million) and 116 million (prior year: 84 million), respectively<sup>4</sup>.

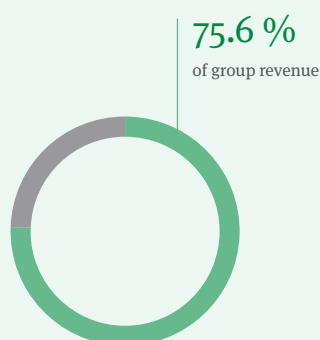
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<sup>4</sup> Earnings per share are calculated in accordance with IAS 33.

## Automotive division

Revenue EUR 9,993 m

EBIT before special items EUR 1,362 m



Revenue growth outpaces increase in global production volumes of passenger cars and light commercial vehicles // Strong increase in revenue at constant currency in Aftermarket business // High, stable gross margin reflects profitable growth // Increased R&D activities to secure new technologies and innovations

### Automotive division earnings

No. 034

in € millions	2015	2014	Change in %
<b>Revenue</b>	<b>9,993</b>	<b>8,986</b>	<b>11.2</b>
• at constant currency			5.8
Revenue by business division			
BD Engine Systems	2,585	2,266	14.1
• Share of revenue in %	25.9	25.2	
BD Transmission Systems	4,240	3,826	10.8
• Share of revenue in %	42.4	42.6	
BD Chassis Systems	1,468	1,360	7.9
• Share of revenue in %	14.7	15.1	
BD Automotive Aftermarket	1,700	1,534	10.8
• Share of revenue in %	17.0	17.1	
Revenue by region <sup>1)</sup>			
Europe	5,227	5,079	2.9
• Share of revenue in %	52.3	56.5	
Americas	2,288	1,874	22.1
• Share of revenue in %	22.9	20.9	
Greater China	1,422	1,149	23.8
• Share of revenue in %	14.2	12.8	
Asia/Pacific	1,056	884	19.5
• Share of revenue in %	10.6	9.8	
Cost of sales	-7,189	-6,501	10.6
Gross profit	2,804	2,485	12.8
<b>EBIT</b>	<b>1,124</b>	<b>1,238</b>	<b>-9.2</b>
• in % of revenue	11.2	13.8	-
<b>EBIT before special items <sup>2)</sup></b>	<b>1,362</b>	<b>1,260</b>	<b>8.1</b>
• in % of revenue	13.6	14.0	-

Prior year information presented based on 2015 segment structure.

<sup>1)</sup> Based on market (customer location).

<sup>2)</sup> EBIT before special items for legal cases.

Automotive division revenue increased by 11.2 % to EUR 9,993 m (prior year: EUR 8,986 m) in 2015. Excluding the impact of currency translation, the growth rate was 5.8 %. Thus, the business expanded considerably faster than global production volumes for passenger cars and light commercial vehicles, which grew by 1.0 % in 2015. The growth rate in excess of the rise in global automobile production was due to an increase in the value of Schaeffler products installed per vehicle. From a regional perspective it was primarily high demand in the U.S. that contributed to the additional revenue. The Aftermarket was also very successful.

Overall, revenue trends varied widely across market regions in 2015. The Europe region generated 2.9 % in additional revenue (2.1 % at constant currency), less than the average growth in regional production volumes (+4.7 %). This was primarily due to projects winding down that were not fully offset by start-ups. The Americas region reported the highest growth rate in the Automotive division in 2015. This region's revenue increased by 22.1 % (13.2 % at constant currency) although automobile production declined by 1.4 %. The division also expanded its revenue significantly in the Greater China region, generating additional revenue of 23.8 % (6.6 % at constant currency) while that region's vehicle production only grew by 2.0 %. Revenue in the Asia/Pacific region was up 19.5 % (10.8 % at constant currency), while vehicle production there declined by 2.7 %.

The Automotive division business is organized in the Engine Systems, Transmission Systems, Chassis Systems, and Automotive Aftermarket business divisions (BD), all of which reported revenue growth in 2015.

The **Engine Systems BD** generated revenue growth of 14.1 % (6.1 % at constant currency) during the year. This growth was primarily buoyed by the fully variable valve train components and accessory drive product groups. Production start-ups, for instance of the innovative thermal management module, also generated considerable additional revenue. This module helps reduce fuel consumption and CO<sub>2</sub> emissions.

**Transmission Systems BD** revenue rose by 10.8 % (4.9 % at constant currency), largely driven by significant demand for components for automated transmissions, such as torque converters. The Automotive division also increased sales of clutches and gearing components used in manual transmissions. In addition, the dual-mass flywheel product group also experienced a significant increase in volume.

The **Chassis Systems BD** generated revenue growth of 7.9 % (3.3 % at constant currency) mainly based on the solid performance of the newest generation of wheel bearings, highly integrated units containing mounting brackets for the brake disk, rim, and wheel carrier that ensure top running accuracy.

The **Automotive Aftermarket BD** increased revenue by 10.8 % (9.9 % at constant currency) in 2015. The increase was primarily due to higher sales in the Americas and Europe regions. Reasons for the additional revenue in Americas include increased requirements of vehicle/automobile manufacturers (OES customers). Europe not only reported strong growth in Southern and Western Europe, but also generated considerable additional revenue in Eastern Europe. The main reason behind the higher revenue was increased market coverage as a result of an expanded customer base.

Cost of sales increased by 10.6 % to EUR 7,189 m (prior year: EUR 6,501 m), growing slightly less than revenue. In total, the Automotive division improved its gross profit by EUR 319 m or 12.8 % to EUR 2,804 m (prior year: EUR 2,485 m). The division's gross margin of 28.1 % was slightly ahead of prior year (prior year: 27.7 %). The Automotive division is thus continuing the prior years' profitable growth, offsetting cost increases, primarily due to collectively bargained wage and salary increases, with consistent cost improvements, an increasing proportion of value added locally in the growth markets, and a more profitable revenue mix.

Functional costs increased 13.9 % to EUR 1,394 m (prior year: EUR 1,224 m), rising slightly to 13.9 % of revenue (prior year: 13.6 %). The main driver of this increase was research and development expenses rising by 17.6 % to EUR 587 m (prior year: EUR 499 m) or 5.9 % (prior year: 5.6 %) of revenue, reflecting increased activities aimed at offering solutions for future mobility concepts for motor vehicles, ranging from chassis innovations and optimizing the classic drive train with an internal combustion engine as well as the transmission to hybrid solutions and electric mobility applications.

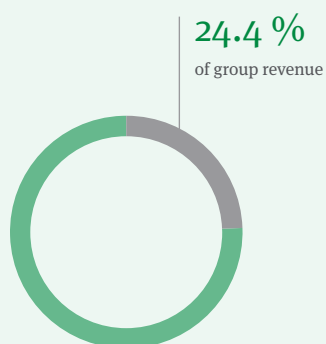
In addition, selling and administrative expenses rose by 11.3 % to EUR 807 m (prior year: EUR 725 m). Besides cost increases due to inflation, the increase is primarily due to a focused strengthening of the selling functions as well as higher freight costs driven by higher volumes.

Automotive division EBIT declined by 9.2 % to EUR 1,124 m (prior year: EUR 1,238 m), and its EBIT margin decreased to 11.2 % (prior year: 13.8 %). EBIT includes EUR 238 m in provisions for legal risks recognized for potential third party claims in connection with the EU antitrust proceedings finalized in March 2014. In the prior year, expenses for legal cases amounted to EUR 22 m. Before these special items, EBIT rose by 8.1 % to EUR 1,362 m (prior year: EUR 1,260 m), whereas the division's EBIT margin before special items declined slightly to 13.6 % (prior year: 14.0 %). Higher investments made in research and development as well as other operating expenses, for instance for adjustments to staffing levels, were the main contributors to this margin decline. A slightly improved gross margin had an offsetting effect.

## Industrial division

Revenue EUR 3,233 m

EBIT before special items EUR 314 m



Revenue at constant currency decreased in both business divisions // Gross margin improved slightly // Increased R&D activities in mechatronics, sensors, and digitalization // EBIT negatively affected by restructuring expenses related to “CORE” program

### Industrial division earnings

No. 035

in € millions	2015	2014	Change in %
<b>Revenue</b>	<b>3,233</b>	<b>3,138</b>	<b>3.0</b>
• at constant currency			-3.2
Revenue by region <sup>1)</sup>			
Europe	1,827	1,829	-0.1
• Share of revenue in %	56.5	58.3	
Americas	617	599	3.0
• Share of revenue in %	19.1	19.1	
Greater China	480	391	22.8
• Share of revenue in %	14.8	12.4	
Asia/Pacific	309	319	-3.1
• Share of revenue in %	9.6	10.2	
Revenue by business division			
BD Industrial Applications	2,051	1,977	3.7
• Share of revenue in %	63.4	63.0	
BD Industrial Aftermarket	1,182	1,161	1.8
• Share of revenue in %	36.6	37.0	
Cost of sales	-2,259	-2,207	2.4
Gross profit	974	931	4.6
<b>EBIT</b>	<b>278</b>	<b>285</b>	<b>-2.5</b>
• in % of revenue	8.6	9.1	-
<b>EBIT before special items <sup>2)</sup></b>	<b>314</b>	<b>301</b>	<b>4.3</b>
• in % of revenue	9.7	9.6	-

Prior year information presented based on 2015 segment structure.

<sup>1)</sup> Based on market (customer location).

<sup>2)</sup> EBIT before special items for legal cases and restructuring.

Industrial division revenue increased by 3.0 % to EUR 3,233 m (prior year: EUR 3,138 m) in 2015. Excluding the impact of currency translation, the division reported a revenue decline of 3.2 %.

Until December 31, 2015, the Industrial division managed its business primarily using two global business divisions (BD) and their business units as profit centers: the Industrial Applications BD, which consisted of the OEM business in the industrial sector, and the Industrial Aftermarket BD, which represented the trading, spare parts, and service business. Since January 01, 2016, the Industrial business is primarily managed based on regions due to its wide customer and business structure. On this basis, the Europe, Americas, Greater China, and Asia/Pacific regions operate as profit centers responsible for the Industrial business in their respective markets.

The **Industrial Applications BD** generated EUR 2,051 m in revenue (prior year: EUR 1,977 m) in 2015, up 3.7 % (-2.7 % at constant currency). The mobility, energy & raw materials, production machinery, and aerospace sectors reported varying revenue trends.

The aerospace sector reported revenue growth. However, revenue excluding the impact of currency translation declined, mainly driven by the industrial gears and agricultural engineering sectors. In the motorcycle sector, on the other hand, revenue increased excluding the impact of currency translation.

Revenue in the energy and raw materials sector was considerably higher than in prior year, also showing a slight increase excluding the impact of currency translation. The increase was buoyed by the wind power sector business in the Greater China and Europe regions. In contrast, the mining sector and the drilling equipment and conveyor systems sector reported considerably lower revenue than last year excluding the impact of currency translation; reasons for the decline included decreasing demand in the oil, gas, and mining markets.

Production machinery revenue was up slightly compared to prior year, although it declined excluding the impact of currency translation. The most significant sector – machine tools – and the textile and printing machinery sectors experienced a slight decrease in revenue excluding the impact of currency translation, while the food processing and packaging sectors reported a slight increase in revenue excluding the impact of currency translation.

The aerospace sector reported revenue growth, while revenue fell slightly when the impact of currency translation is excluded, as the Americas region was unable to fully offset weaker revenue in the Europe region.

**Industrial Aftermarket BD** revenue rose by 1.8 % to EUR 1,182 m (prior year: EUR 1,161 m) in 2015. However, excluding the impact of currency translation, revenue declined by 4.0 %.

Revenue trends varied widely between the Industrial division's regions in 2015. In Europe, revenue was approximately in line with the prior year (-2.0 % at constant currency). The Americas region reported growth of 3.0 % (-7.3 % at constant currency). Growing at 22.8 %, Greater China region revenue was significantly higher than in the prior year (4.1 % at constant currency), while Asia/Pacific revenue fell 3.1 % compared to prior year (-11.5 % at constant currency).

Industrial division cost of sales increased by 2.4 % to EUR 2,259 m (prior year: EUR 2,207 m) in 2015. Gross profit grew by 4.6 % to EUR 974 m (prior year: EUR 931 m), and the division's gross margin rose slightly by 0.4 percentage points to 30.1 % (prior year: 29.7 %). Raw materials prices were slightly below the prior year during the 2015 reporting period.

Functional costs increased by 3.8 % to EUR 653 m (prior year: EUR 629 m). At 20.2 % (prior year: 20.0 %), functional costs as a percentage of revenue were slightly above the prior year level. Research and development expenses increased by 8.1 % to EUR 133 m (prior year: EUR 123 m) in 2015, largely due to higher expenses for mechatronics, sensors, and digitalization. Selling and administrative expenses rose by 2.8 % to EUR 520 m (prior year: EUR 506 m), which was mainly due to inflation.

Industrial division EBIT declined by 2.5 % to EUR 278 m (prior year: EUR 285 m). Its EBIT margin decreased to 8.6 % (prior year: 9.1 %). EBIT was held back by expenses of EUR 36 m for provisions recognized in connection with the “CORE” program. In the prior year, expenses for legal cases amounted to EUR 16 m. Before these special items, divisional EBIT amounted to EUR 314 m (prior year: EUR 301 m) and the divisional EBIT margin to 9.7 % (prior year: 9.6 %). The slight increase in the EBIT margin was mainly attributable to an improved gross margin, which was partially offset by, inter alia, higher investments made in research and development.

## Performance indicators and special items

EBIT, EBITDA, debt to EBITDA ratio, ROCE, and Schaeffler Value Added and the corresponding amounts before special items are indicators that are not defined in International Financial Reporting Standards (IFRS). Therefore, these indicators should be considered supplementary information.

The key indicators used in evaluating the company's operations are EBIT and the EBIT margin. In addition, the company calculates EBITDA, which represents EBIT before amortization of intangible assets, depreciation of property, plant and equipment, and impairment losses. EBITDA is primarily used to calculate the debt to EBITDA ratio. This ratio is used to evaluate the financing structure and is the ratio of net financial debt to EBITDA, where net financial debt is defined as the sum of current and non-current financial debt net of cash and cash equivalents. The Schaeffler Group's key value-based performance indicator is return on capital employed (ROCE) as well as Schaeffler Value Added, which is closely linked to ROCE. ROCE corresponds to EBIT in relation to average capital employed. Average capital employed is calculated as the sum of property, plant and equipment, intangible assets, and working capital, which in turn comprises trade receivables and inventories net of trade payables. The annual average is determined as the mathematical average of the balance at the end of each of the four quarters. Schaeffler Value Added is calculated as EBIT less the cost of capital. Cost of capital is calculated by applying the minimum return of 10 % p.a. (before tax) set by the Board of Managing Directors and the Supervisory Board to the average capital employed during the year.

In order to make the evaluation of the company's results of operations as transparent as possible, the Schaeffler Group reports the indicators described above before special items. Special items are items whose nature, frequency and/or size may render the financial indicators less meaningful for evaluating the sustainability of the Schaeffler Group's profitability. In addition to presenting special items, the company also aims to make the evaluation of the company's results of operations as transparent as possible by presenting its revenue figures excluding



the impact of currency translation. Revenue figures at constant currency, i.e. excluding the impact of translation, are calculated by translating functional currency revenue using the same exchange rate for both the current and the prior year or comparison reporting period.

In 2015, special items relate primarily to legal cases and restructuring.

## Reconciliation

No. 036

	Total		Automotive		Industrial	
in € millions	2015	2014	2015	2014	2015	2014
<b>EBIT</b>	<b>1,402</b>	<b>1,523</b>	<b>1,124</b>	<b>1,238</b>	<b>278</b>	<b>285</b>
• in % of revenue	10.6	12.6	11.2	13.8	8.6	9.1
<b>Special items</b>						
Legal cases	238	38	238	22	0	16
Restructuring	36	0	0	0	36	0
<b>EBIT before special items</b>	<b>1,676</b>	<b>1,561</b>	<b>1,362</b>	<b>1,260</b>	<b>314</b>	<b>301</b>
• in % of revenue	12.7	12.9	13.6	14.0	9.7	9.6
<b>EBITDA</b>	<b>2,096</b>	<b>2,172</b>				
• in % of revenue	15.8	17.9				
<b>Special items</b>						
Legal cases	238	38				
Restructuring	36	0				
<b>EBITDA before special items</b>	<b>2,370</b>	<b>2,210</b>				
• in % of revenue	17.9	18.2				
Net financial debt	4,889	5,778				
/ EBITDA	2,096	2,172				
<b>Debt to EBITDA ratio</b>	<b>2.3</b>	<b>2.7</b>				
Net financial debt	4,889	5,778				
/ EBITDA before special items	2,370	2,210				
<b>Debt to EBITDA ratio before special items</b>	<b>2.1</b>	<b>2.6</b>				
EBIT	1,402	1,523				
/ Average capital employed	7,455	6,756				
<b>ROCE (in %)</b>	<b>18.8</b>	<b>22.5</b>				
EBIT before special items	1,676	1,561				
/ Average capital employed	7,455	6,756				
<b>ROCE before special items (in %)</b>	<b>22.5</b>	<b>23.1</b>				
EBIT	1,402	1,523				
• Cost of capital	745	676				
<b>Schaeffler Value Added</b>	<b>657</b>	<b>847</b>				
EBIT before special items	1,676	1,561				
• Cost of capital	745	676				
<b>Schaeffler Value Added before special items</b>	<b>931</b>	<b>885</b>				

## 2.4 Financial position and finance management

### Cash flow and liquidity

The Schaeffler Group generated free cash flow of EUR 370 m (prior year: EUR 48 m) in 2015.

<b>Cash flow</b>			No. 037
in € millions	2015	2014	Change in %
Cash flows from operating activities	1,372	900	52.4
Cash used in investing activities	-1,002	-852	17.6
<b>Free cash flow</b>	<b>370</b>	<b>48</b>	<b>&gt; 100</b>
Cash provided by (used in) financing activities	-212	271	-
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>158</b>	<b>319</b>	<b>-50.5</b>
Net increase (decrease) in cash and cash equivalents	5	17	-70.6
Cash and cash equivalents as at beginning of period	636	300	> 100
<b>Cash and cash equivalents</b>	<b>799</b>	<b>636</b>	<b>25.6</b>

Cash flows from operating activities increased by EUR 472 m to EUR 1,372 m (prior year: EUR 900 m) compared to the prior year, primarily due to an improvement in operating activities in 2015. In addition, the prior year amount was affected by the payment of the EU antitrust penalty of EUR 371 m. Interest paid, which includes the prepayment penalty of EUR 173 m (prior year: EUR 114 m) paid in connection with the refinancing transaction, declined by EUR 12 m compared to the prior year. Income taxes paid increased by EUR 81 m to EUR 358 m (prior year: EUR 277 m) in 2015. Cash outflows of EUR 116 m (prior year: EUR 121 m) related to expanding working capital were in line with the prior year.

Driven by higher expenditures on property, plant and equipment, cash used in investing activities (see "Additions to intangible assets and property, plant and equipment") rose to EUR 1,002 m in 2015, considerably exceeding the prior year level of EUR 852 m. In 2015, capital expenditures on property, plant and equipment and intangible assets of EUR 1,025 m (prior year: EUR 857 m) contrasted with cash inflows from disposals of assets and reimbursements of development costs of EUR 26 m (prior year: EUR 8 m). The capex ratio for intangible assets and property, plant and equipment was 7.7 % (prior year: 7.1 %) of consolidated revenue in 2015. The increase in investing activities is designed to facilitate future growth.

These developments resulted in free cash flow of EUR 370 m (prior year: EUR 48 m) for 2015.

EUR 212 m in cash was used in financing activities in 2015 (prior year: EUR 271 m provided by financing activities).

Refinancing the bonds resulted in cash inflows of EUR 204 m that were used to finance transaction costs and prepayment penalties. The payments of the prepayment penalties and transaction costs are included in cash flows from operating activities. EUR 250 m of the EUR 251 m in dividends paid represented the dividend paid to Schaeffler Verwaltung Zwei GmbH. Furthermore, other financing activities include cash inflows of EUR 197 m received by Schaeffler AG from Schaeffler Verwaltung Zwei GmbH in partial repayment of an outstanding loan receivable.

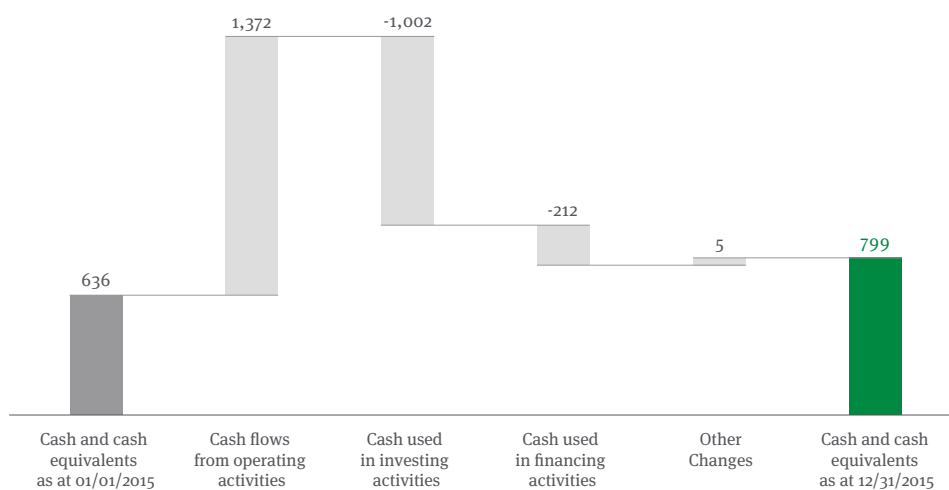
The listing resulted in cash inflows, net of transaction costs, of EUR 810 m that were used to partially prepay the company’s institutional loan tranches. Total net partial prepayments made during the year amounted to EUR 1,175 m.

Cash and cash equivalents increased by EUR 163 m to EUR 799 m at December 31, 2015.

**Change in cash and cash equivalents**

No. 038

in € millions



At December 31, 2015, cash and cash equivalents amounted to EUR 799 m (prior year: EUR 636 m) and consisted primarily of bank balances. EUR 198 m (prior year: EUR 172 m) of this amount related to countries with foreign exchange restrictions and other legal restrictions. In addition, the Schaeffler Group has a revolving line of credit of EUR 1.0 bn (prior year: EUR 1.0 bn), of which EUR 24 m (prior year: EUR 34 m) were utilized at December 31, 2015 primarily in the form of letters of credit.











## Capital expenditures



Among the bases of the Schaeffler Group’s growth strategy are investments in new products and technologies as well as in expanding the group’s global production network. Investing in intangible assets and property, plant and equipment is a key growth driver for the Schaeffler Group.

The Schaeffler Group increased its capital expenditures on property, plant and equipment and intangible assets (capex) by 19.6 % to EUR 1,025 m (prior year: EUR 857 m) in 2015. The capex ratio was 7.7 % (prior year: 7.1 %) of consolidated revenue in 2015.

### Capital expenditures by region (capex)

No. 039

		in € millions	Change in %
Europe		556	13.2
		491	
Americas		170	14.9
		148	
Greater China		250	37.4
		182	
Asia/Pacific		49	36.1
		36	
Schaeffler Group		1,025	19.6
		857	

 2015     2014

Regions reflect the regional structure of the Schaeffler Group.

EUR 556 m of the EUR 1,025 m in total capital expenditures were made in the Europe region. In order to strengthen its competitive position, the Schaeffler Group primarily invested in expanding capacity and functionalities. Approximately EUR 170 m, EUR 250 m, and EUR 49 m of total capital expenditures were made in the Americas, Greater China, and Asia/Pacific regions, respectively.

Besides expanding capacity and functionalities, additions to intangible assets and property, plant and equipment were mainly made for product start-ups and to replace assets as necessary. One of the key objectives of Schaeffler’s capital expenditure strategy is strengthening the company’s competitive position by expanding capacity at manufacturing locations in the Schaeffler Group’s growth regions. Additions made to expand capacity accounted for approximately 38 % of total additions to intangible assets and property, plant and equipment, while approximately 31 % were invested for new product start-ups. Further additions to intangible assets and property, plant and equipment were made to replace plants (approximately 14 %) and expand functionalities (approximately 11 %) as well as for rationalization measures (approximately 4 %). These additions to intangible assets and property, plant and equipment represent

the basis for continually improving the quality and reliability of supply of the Schaeffler Group. In addition, they increase the Schaeffler plants' productivity by replacing obsolete machinery with innovative and more efficient equipment. In addition to the construction of new manufacturing locations such as the one in Rayong, Thailand, additions to intangible assets and property, plant and equipment made in 2015 also related to the "European Distribution Center" (EDC) project. The Schaeffler Group continued construction on the EDC Center (Kitzingen, Germany) and EDC South (Carisio, Italy) locations during the year.

The Schaeffler Group increased its additions to intangible assets and property, plant and equipment by 21.3 % compared to the prior year, mostly in the Automotive division. In the Industrial division, additions to intangible assets and property, plant and equipment rose by 7.4 %. Additions to intangible assets and property, plant and equipment as a percentage of consolidated revenue amounted to 8.5 % (prior year: 7.8 %). Amortization and depreciation as a percentage of consolidated revenue amounted to 5.2 % (prior year: 5.4 %) in 2015. At December 31, 2015, the Schaeffler Group had open commitments under fixed contracts to purchase property, plant and equipment of EUR 352 m (prior year: EUR 262 m).

## Financial debt

Net financial debt declined by EUR 889 m to EUR 4,889 m (prior year: EUR 5,778 m) in 2015. The reduction was primarily attributable to the net proceeds of the listing and the significant improvement in free cash flow.

The debt to EBITDA ratio, defined as the ratio of net financial debt to earnings before financial result, income taxes, depreciation and amortization and impairment losses (EBITDA), amounted to 2.3 at December 31, 2015 (prior year: 2.7). The net debt to EBITDA ratio before special items related to legal provisions and restructuring expenses for the "CORE" program is 2.1 (prior year: 2.6)

### Net financial debt

No. 040

in € millions	12/31/2015	12/31/2014	Change in %
Bonds	5,048	4,634	8.9
Loan tranches Facilities Agreement	632	1,774	-64.4
Other financial debt	8	6	33.3
<b>Total financial debt</b>	<b>5,688</b>	<b>6,414</b>	<b>-11.3</b>
Cash and cash equivalents	799	636	25.6
<b>Net financial debt</b>	<b>4,889</b>	<b>5,778</b>	<b>-15.4</b>

On March 26, 2015, the Schaeffler Group announced a refinancing transaction of approximately EUR 1.5 bn which was completed on April 27, 2015.

The company placed a total of three bond issues. The placement comprised two secured EUR and one secured USD bond issues. The first EUR bond, which has a principal of EUR 400 m, bears interest at 2.50 % and carries a term of five years. The second EUR bond, with a principal of EUR 600 m and a term of ten years, bears interest at 3.25 %. The USD bond with a principal of USD 600 m has a term of eight years and bears interest at 4.75 %.

The new bonds were issued by Schaeffler Finance B.V. and are listed on the Euro MTF market of the Luxembourg Stock Exchange; they were guaranteed by Schaeffler Verwaltung Zwei GmbH and certain of its subsidiaries when they were issued. At the time of issue, the rating agencies Standard & Poor's and Moody's rated the bonds BB- and Ba2.

The proceeds of the new bond issues were largely used to redeem two outstanding series of bonds. The company redeemed the EUR 800 m EUR bond series and the USD 600 m USD bond series, both bearing interest at 7.75 % and due in February 2017. In addition, the proceeds of the transaction were also used to finance the related transaction costs, primarily the prepayment penalty for the bonds redeemed.

Schaeffler AG was listed on the stock exchange on October 09, 2015. The listing is described in more detail under „Shareholders' equity“. The guarantees issued by Schaeffler Verwaltung Zwei GmbH and Schaeffler Beteiligungsholding GmbH & Co. KG to the Schaeffler Group's creditors were released on October 09, 2015.

Also on October 09, 2015, the rating agency Moody's upgraded Schaeffler AG's company rating to Ba2 from Ba3. Moody's also confirmed Schaeffler AG's and Schaeffler B.V.'s secured bond ratings of Ba2 and unsecured bond ratings of B1. The outlook on all ratings is stable.

Over the course of 2015, Schaeffler AG partially prepaid a total of approximately EUR 1,267 m<sup>5</sup> of its institutional loan tranches. The partial prepayments were financed using the proceeds of Schaeffler AG's listing in October 2015 (EUR 821 m prepayment) and from available liquidity in June 2015 (EUR 210 m) and in November 2015 (EUR 236 m). The company paid off a total of EUR 500 m of its Senior Term Loan B EUR and a total of USD 860 m of its Senior Term Loan B USD.

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<sup>5</sup> The net cash outflows for partial prepayments of EUR 1,175 m shown in the "Cash flow and liquidity" chapter include cash inflows from hedging instruments of EUR 92 m. These cash inflows from hedging instruments are presented under repayments of loans, as were the cash outflows from the hedged item.

The Facilities Agreement consists of the following loan tranches at December 31, 2015:

### Facility agreement loan tranches

No. 041

Tranche	Cur- rency	12/31/2015	12/31/2014	12/31/2015	12/31/2014	12/31/2015	12/31/2014	Maturity
		Face value in millions	Carrying amount in € millions	Coupon				
Senior Term Loan B	EUR	250	750	251	757	Euribor + 3.50 % <sup>1)</sup>	Euribor + 3.50 % <sup>1)</sup>	05/15/2020
Senior Term Loan B	USD	440	1,300	392	1,031	Libor + 3.50 % <sup>2)</sup>	Libor + 3.50 % <sup>2)</sup>	05/15/2020
Revolving Credit Facility <sup>3)</sup>	EUR	1,000	1,000	-11	-14	Euribor + 2.6875 % <sup>4)</sup>	Euribor + 2.875 %	10/27/2019
<b>Total</b>				<b>632</b>	<b>1,774</b>			

<sup>1)</sup> Euribor floor of 0.75 %.

<sup>2)</sup> Libor floor of 0.75 %.

<sup>3)</sup> EUR 24 m (December 31, 2014: EUR 34 m) were drawn down as at December 31, 2015, primarily in the form of letters of credit.

<sup>4)</sup> Since October 16, 2015.

The following bonds issued by Schaeffler Finance B.V., Barneveld, Netherlands, were outstanding as at December 31, 2015:

### Schaeffler Group bonds

No. 042

ISIN	Cur- rency	12/31/2015	12/31/2014	12/31/2015	12/31/2014	Coupon	Maturity
		Face value in millions	Carrying amount in € millions				
XS0923613060	EUR	600	600	597	596	4.25 %	05/15/2018
XS1067864881 <sup>1)</sup>	EUR	500	500	497	496	3.25 %	05/15/2019
XS1067862919	EUR	500	500	497	496	2.75 %	05/15/2019
XS1212469966	EUR	400	0	396	0	2.50 %	05/15/2020
US806261AJ29	USD	700	700	637	571	4.25 %	05/15/2021
US806261AE32	USD	850	850	777	696	4.75 %	05/15/2021
XS1067864022	EUR	500	500	499	499	3.50 %	05/15/2022
US806261AM57	USD	600	0	553	0	4.75 %	05/15/2023
XS1212470972	EUR	600	0	595	0	3.25 %	05/15/2025
XS0741938624 <sup>2)</sup>	EUR	0	800	0	791	7.75 %	02/15/2017
US806261AC75 <sup>2)</sup>	USD	0	600	0	489	7.75 %	02/15/2017
<b>Total</b>				<b>5,048</b>	<b>4,634</b>		

<sup>1)</sup> Bond is unsecured.

<sup>2)</sup> Bonds were redeemed early on April 27, 2015.

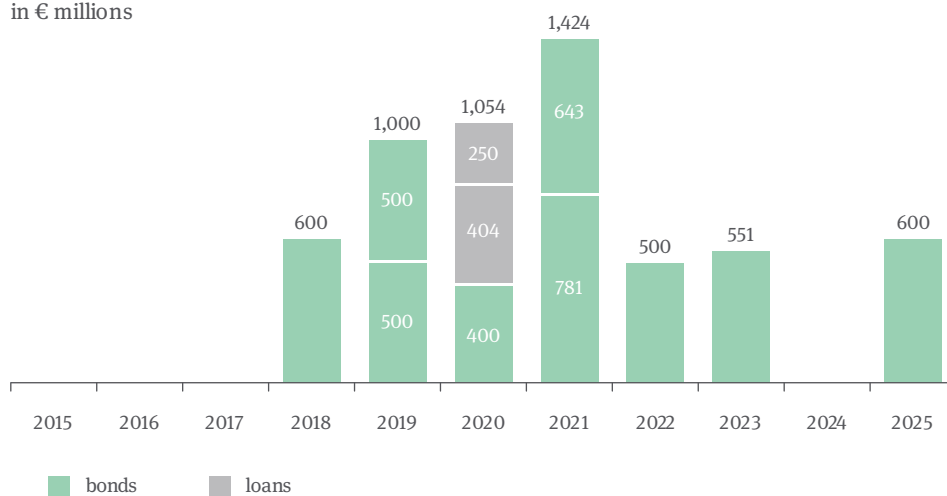
The Schaeffler bonds are listed on the Euro MTF market of the Luxembourg Stock Exchange.

The company's maturity profile, which consists of the two institutional loan tranches and the bonds issued by Schaeffler Finance B.V., Barneveld, Netherlands, was as follows as at December 31, 2015:

**Maturity profile (principal outstanding as at December 31, 2015)**

No. 043

in € millions



Schaeffler's existing loan agreements require the group to comply with certain financial covenants. These financial covenants are a senior debt leverage cover and a senior interest cover. Compliance with financial covenants is continually monitored and reported to the lending banks on a regular basis. The company has complied with the financial covenants as stipulated in the debt agreements throughout 2015.



## Finance management

The objective of the Schaeffler Group's finance management is to ensure that sufficient liquidity is available to the Group and to its foreign and domestic subsidiaries at all times. Finance management primarily comprises capital management and liquidity management.

Actively managing capital provides the necessary financial resources, ensures the availability of liquidity, and secures the Schaeffler Group's credit standing. Capital management also administers and continually improves the company's existing financial debt consisting of its external group financing arrangements. To this end, the Schaeffler Group has laid the foundations for obtaining debt and equity funding via the capital markets. The Schaeffler Group's management will continue to focus on the group's ability to place financial instruments with a broad range of investors and to further improve financing terms.

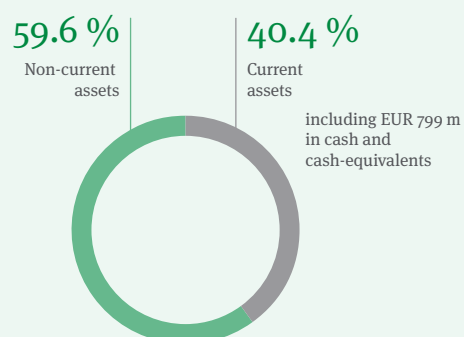
External group financing is provided by capital market instruments as well as syndicated and bilateral lines of credit from international banks and institutional investors. One such line of credit is a contractually agreed revolving credit facility of EUR 1,000 m available to manage the Schaeffler Group's short- to medium liquidity needs. Please refer to section 2.4 "Financial position and finance management" – "Financial debt" for further details on the various instruments representing the group financing arrangements.

The Schaeffler Group has a policy of financing its domestic and foreign subsidiaries from internal sources. In accordance with this policy, subsidiaries' financing needs are met using internal loans to the extent possible and economically justifiable. As a result, subsidiaries are primarily financed by loans provided by Schaeffler AG and one other subsidiary. Liquidity is balanced between group companies using cash pools or intercompany loans. In a few cases, Corporate Treasury obtains lines of credit for subsidiaries from local banks for legal, tax, or other reasons. Local financing is primarily used to manage working capital.

Centralized finance management performed by the Corporate Treasury department also ensures a uniform presence in the capital markets and when dealing with rating agencies, eliminates structural differences between the various groups of creditors, and strengthens the group's bargaining position with respect to banks and other market participants. In addition, centralized finance management facilitates the centralized allocation of liquidity as well as groupwide management of financial risk (foreign exchange and interest) on a net basis.

## 2.5 Net assets and capital structure position

### Assets



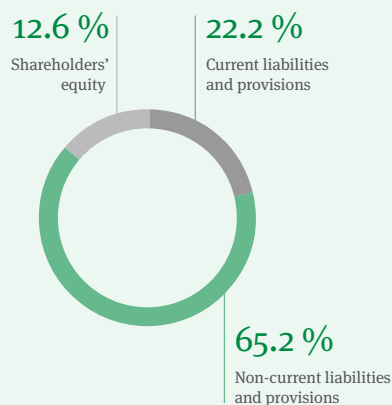
Total assets up 7.4 % // Increased investing activities expand property, plant and equipment // Positive business growth results in higher inventories and trade receivable

#### Asset structure

No. 044

in € millions	12/31/2015	12/31/2014	Change in %
Intangible assets	589	555	6.1
Property, plant and equipment	4,180	3,748	11.5
Other financial assets	2,123	1,978	7.3
Other assets	57	58	-1.7
Income tax receivables	4	8	-50.0
Deferred tax assets	485	455	6.6
<b>Total non-current assets</b>	<b>7,438</b>	<b>6,802</b>	<b>9.4</b>
Inventories	1,812	1,713	5.8
Trade receivables	2,023	1,900	6.5
Other financial assets	123	343	-64.1
Other assets	211	181	16.6
Income tax receivables	74	42	76.2
Cash and cash equivalents	799	636	25.6
<b>Total current assets</b>	<b>5,042</b>	<b>4,815</b>	<b>4.7</b>
<b>Total assets</b>	<b>12,480</b>	<b>11,617</b>	<b>7.4</b>

## Shareholders' equity and liabilities



Shareholders' equity improved significantly by listing and net income // EUR 238 m in provisions for legal risks // EUR 36 m in provisions for restructuring related to CORE // Financial debt reduced by 11.3 %

### Capital structure

No. 045

in € millions	12/31/2015	12/31/2014	Change in %
<b>Total shareholders' equity</b>	<b>1,568</b>	<b>258</b>	<b>&gt; 100</b>
Provisions for pensions and similar obligations	1,942	1,984	-2.1
Provisions	182	70	> 100
Financial debt	5,685	6,413	-11.4
Income tax payables	210	237	-11.4
Other financial liabilities	12	21	-42.9
Other liabilities	6	8	-25.0
Deferred tax liabilities	107	106	0.9
<b>Total non-current liabilities</b>	<b>8,144</b>	<b>8,839</b>	<b>-7.9</b>
Provisions	431	232	85.8
Financial debt	3	1	> 100
Trade payables	1,405	1,261	11.4
Income tax payables	112	155	-27.7
Other financial liabilities	512	558	-8.2
Other liabilities	305	313	-2.6
<b>Total current liabilities</b>	<b>2,768</b>	<b>2,520</b>	<b>9.8</b>
<b>Total shareholders' equity and liabilities</b>	<b>12,480</b>	<b>11,617</b>	<b>7.4</b>

## Assets

The Schaeffler Group's total assets increased by EUR 863 m or 7.4 % to EUR 12,480 m (prior year: EUR 11,617 m) in 2015.

Property, plant and equipment expanded by EUR 432 m to EUR 4,180 m (prior year: EUR 3,748 m), largely due to an increase in investing activities. Additions of EUR 1,048 m were partially offset by EUR 663 m in depreciation.

Non-current other financial assets rose by EUR 145 m to EUR 2,123 m (prior year: EUR 1,978 m) as at December 31, 2015. This balance includes EUR 1,773 m in loans receivable from the company's shareholder Schaeffler Verwaltung Zwei GmbH, including a loan receivable from Schaeffler Verwaltung Zwei GmbH of EUR 270 m which arose in connection with Schaeffler AG taking on the cash pooling function and was converted from a short-term loan to a long-term loan receivable in 2015. Schaeffler Verwaltung Zwei GmbH reduced these loans receivable by voluntarily repaying a total of EUR 197 m during the year. Favorable changes in the fair value of non-current derivatives hedging the bonds denominated in U.S. Dollars were the primary reason for the remaining increase in other financial assets.

The increase in inventories of EUR 99 m and in trade receivables of EUR 123 m is mainly attributable to business growth in 2015 as well as the impact of currency translation.

Other current financial assets decreased by EUR 220 m to EUR 123 m (prior year: EUR 343 m), primarily as a result of the conversion of the loan receivable described above, which was partially offset by favorable changes in the fair value of derivatives hedging currency risk from operations.

Cash and cash equivalents increased by EUR 163 m to EUR 799 m at December 31, 2015 (prior year: EUR 636 m) (see "Cash flow", page 70).

## Shareholders' equity and liabilities

The Schaeffler Group has considerably strengthened its capital structure in 2015. Shareholders' equity (including non-controlling interests) increased by EUR 1,310 m to EUR 1,568 m as at December 31, 2015 (prior year: EUR 258 m). In addition to consolidated net income of EUR 605 m, it was primarily the listing completed on October 09, 2015 which helped bolster shareholders' equity. A dividend of EUR 250 m was paid to the company's shareholder Schaeffler Verwaltung Zwei GmbH in 2015. Total other comprehensive income amounted to EUR 142 m (prior year: other comprehensive loss of EUR 238 m) as at December 31, 2015, and consisted primarily of the impact of translating the net assets of foreign group companies (EUR 34 m), of remeasurements of pensions and similar obligations (EUR 63 m), and of cash flow hedges (EUR 46 m). The equity ratio was 12.6 % at December 31, 2015 (prior year: 2.2 %).

The increase in non-current provisions by EUR 112 m to EUR 182 m (prior year: EUR 70 m) is primarily attributable to a provision for legal risks recognized for potential third party claims in connection with the EU antitrust proceedings finalized in March 2014. EUR 95 m have been included in non-current provisions for this issue. In addition, provisions were recognized for restructuring, primarily for the "CORE" program, including EUR 28 m of non-current provisions.

Non-current financial debt declined by EUR 728 m to EUR 5,685 m (prior year: EUR 6,413 m), primarily due to voluntary partial prepayments of institutional loan tranches that were partially offset by the impact of translating financial debt denominated in U.S. Dollars to Euro (see Financial debt, pages 73 et seq.).

The increase in current provisions of EUR 199 m to EUR 431 m (prior year: EUR 232 m) was mainly attributable to the provisions for legal risks (EUR 143 m) and restructuring (EUR 14 m) referred to above.

The increase in trade payables by EUR 144 m was largely the result of business growth, increased investing activities, and the impact of currency translation.

The Schaeffler Group's significant off-balance sheet commitments include obligations under operating rental and lease agreements and contingent liabilities. The Schaeffler Group's obligations under non-cancellable operating rental and lease agreements totaled EUR 126 m at December 31, 2015 (prior year: EUR 120 m); obligations under finance leases were insignificant.

## Listing

Schaeffler AG was listed on the Frankfurt Stock Exchange on October 09, 2015.

In preparation for the listing, Schaeffler AG's extraordinary shareholder meeting on September 08, 2015 passed the following resolutions amending the company's articles of incorporation with respect to share capital, which became legally effective when they were entered into the Commercial Register on October 05, 2015:

(1) Share split:

Schaeffler AG's share capital of EUR 600 m, previously divided into 60 million registered no-par-value shares, was re-divided. Each no-par-value share representing an interest in share capital of EUR 10.00 was replaced by ten no-par-value shares representing an interest in share capital of EUR 1.00 (10-for-1 share split). This change re-divided Schaeffler AG's share capital into 600 million registered common no-par-value shares, of which 500 million no-par-value shares were held by Schaeffler Verwaltung Zwei GmbH and 100 million no-par-value shares were held by Schaeffler Verwaltungs GmbH. Following the re-division, all of the company's shares were converted to bearer shares.

(2) Conversion to common non-voting shares held by Schaeffler Verwaltungs GmbH:

The common bearer shares held by Schaeffler Verwaltungs GmbH (100 million) were converted to common non-voting no-par-value bearer shares. The common non-voting shares are entitled to a preferred dividend of EUR 0.01 per share.

(3) Increase in share capital:

Schaeffler AG increased its share capital to EUR 666 m by issuing 66 million new common non-voting no-par-value bearer shares. The common non-voting shares carry dividend rights from January 01, 2015 and are also entitled to a preferred dividend of EUR 0.01 per share. On September 21, 2015, Schaeffler AG and Schaeffler Verwaltungs GmbH announced their intention to place up to 166 million new and existing common non-voting shares with German and foreign institutional investors and to have Schaeffler AG's shares listed on the regulated market (Prime Standard) of the Frankfurt Stock Exchange.

The 66 million shares issued in connection with Schaeffler AG's capital increase and 9 million shares to be sold by Schaeffler Verwaltungs GmbH were offered on October 05, 2015. The placement price was set at EUR 12.50 per share on October 08, 2015. Schaeffler's common non-voting shares started trading on October 09, 2015. Schaeffler AG received gross proceeds of EUR 825 m from the placement.

Following the listing, one of the underwriting banks acquired a total of approximately 3.4 million Schaeffler AG shares in order to stabilize the share price. The bank put these shares to Schaeffler Verwaltungs GmbH on November 09, 2015 under an option written by that company. Since the exercise of this option, Schaeffler AG's free float amounts to approximately 10.8 %.

## 2.6 Value management

Ensuring that the Schaeffler Group continues to meet its core business objective of growing profitably in the long-term necessitates a value-based approach to managing its business portfolio. The Schaeffler Group's key value-based performance indicator is return on capital employed (ROCE) as well as Schaeffler Value Added, which is closely linked to ROCE. Neither indicator is directly used in managing the Schaeffler Group's operations, although Schaeffler Value Added represents a key performance criterion within the framework governing the variable short-term remuneration of the Board of Managing Directors and the remuneration at the next-lower levels of management (see "Value-based management" on page 32).

Positive Schaeffler Value Added means that the Schaeffler Group's EBIT exceeds the cost of capital for the period and has added the corresponding amount in value. Cost of capital is calculated by applying the minimum return of 10 % p.a. (before tax) set by the Board of Managing Directors and the Supervisory Board to the average capital employed during the year.

Average capital employed is calculated by adding up the following operating balance sheet items: Intangible assets, property, plant and equipment, and working capital, which in turn comprises trade receivables and inventories net of trade payables. The annual average is determined as the mathematical average of the balance at the end of each of the four quarters.

While Schaeffler Value Added is an absolute measure of the value added by the company, return on capital employed – the ratio of EBIT to capital employed – measures the Schaeffler Group's return on capital.

### ROCE and Schaeffler Value Added

No. 046

in € millions	12/31/2015	12/31/2014
EBIT (in EUR m)	1,402	1,523
EBIT before special items (in EUR m)	1,676	1,561
Cost of capital (in EUR m)	745	676
Cost of capital (in %)	10.0	10.0
Capital employed (in EUR m)	7,455	6,756
ROCE (in %)	18.8	22.5
ROCE before special items (in %)	22.5	23.1
Schaeffler Value Added (in EUR m)	657	847
Schaeffler Value Added before special items (in EUR m)	931	885

## 2.7 Overall assessment of the 2015 business year

The Board of Managing Directors considers 2015 a satisfactory year overall. In a challenging economic environment, the Schaeffler Group was able to continue the successful performance of the prior year. The outlook for the financial performance indicators provided in the group management report of the Schaeffler Group as at December 31, 2014 were largely achieved. The outlook for revenue growth excluding the impact of currency translation, which was reduced from 5 to 7 % to 4 to 5 % in September 2015, was narrowly missed due to a weaker-than-expected trend in the industrial sectors relevant to the Schaeffler Group during the fourth quarter of 2015.

Growth in worldwide automobile and industrial production was disappointing. Particularly global production volumes for passenger cars and light commercial vehicles did not live up to what was expected at the beginning of 2015, which was attributable to lower growth rates in Americas, primarily in Brazil, and in Greater China. Worldwide industrial production also experienced weaker growth than anticipated.

In this environment, the group reported revenue of EUR 13,226 m, representing **revenue growth** of 9.1 %. Excluding the favorable impact of currency translation, revenue rose by 3.5 %. The Automotive division generated revenue growth of 11.2 % to EUR 9,993 m (prior year: EUR 8,986 m) in 2015. Excluding the impact of currency translation, revenue increased by 5.8 %. Thus, the division has once more grown significantly faster than global production volumes of passenger cars and light commercial vehicles. Industrial division revenue rose by 3.0 % to EUR 3,233 m (prior year: EUR 3,138 m) in 2015 due to currency translation. However, excluding the favorable impact of currency translation, revenue declined by 3.2 %. The determining factor for this decline was the lasting weakness in demand, particularly in the oil, gas, and mining sectors as well as in the Aftermarket business, which deteriorated in the second half of 2015.

Given the sluggish trend in production volumes for passenger cars and light commercial vehicles, the Board of Managing Directors views the growth in Automotive division revenue as encouraging. The Automotive division met its target of generating above-market revenue growth. The revenue trend in the Industrial division, on the other hand, was disappointing.



The Schaeffler Group's **EBIT margin** amounted to 10.6 % (prior year: 12.6 %) in 2015. Earnings were negatively affected by expenses related to a EUR 238 m provision recognized for legal risks and by EUR 36 m in expenses incurred for restructuring provisions recognized in connection with the organizational realignment of the Industrial division ("CORE" program). The provision was recognized for potential third party claims in connection with the EU antitrust proceedings finalized in March 2014. This contrasts with an adverse impact on earnings related to legal cases in the amount of EUR 38 m in the prior year. Before these special items, the company's EBIT margin amounted to 12.7 %, nearly flat with the prior year (prior year: 12.9 %). Considering that the company has invested significantly more in research and development in 2015, the group's profitability has improved.

The Board of Managing Directors looks back on an improvement in **free cash flow**. The Schaeffler Group reported free cash flow of EUR 370 m in 2015, EUR 322 m more than the prior year amount of EUR 48 m. The prior year amount was affected by the payment of the EU antitrust penalty of EUR 371 m. The increase in operating cash flow, mainly due to improved operating activities, has more than offset the increase in capital expenditures (capex). The Schaeffler Group has thus considerably reinforced its internal financial strength in 2015. The Board of Managing Directors considers the development of cash flow encouraging.

## 2.8 Net assets, financial position and earnings of Schaeffler AG

Schaeffler AG is a corporation domiciled in Germany with its registered office located at Industriestraße 1-3, 91074 Herzogenaurach. It acts as a management holding company and is responsible for directing the Schaeffler Group and managing its business.

The Board of Managing Directors of Schaeffler AG is responsible for the key management functions of the Schaeffler Group. Schaeffler AG's situation is largely determined by the Schaeffler Group's operating performance.

Schaeffler AG's common non-voting shares were listed on the Frankfurt Stock Exchange on October 09, 2015. With this listing, the company has created the basis for successfully continuing the Schaeffler Group's profitable growth in the coming years, effectively reducing its interest charges, strengthening its operating cash flow, and, thus, its financial strength. The proceeds of the listing have helped improve its equity ratio and reduce its debt to EBITDA ratio.

Since January 01, 2016, all staff at the Schaeffler Group's corporate head office are employed by Schaeffler AG.

### Schaeffler AG earnings

#### Schaeffler AG earnings

No. 047

in € millions	2015	2014	Change in %
Income from equity investments	1,119	1,116	0.3
Interest result	-359	-404	-11.1
General and administrative expenses	-97	-28	> 100
Net other operating expenses	34	-290	-
<b>Result from ordinary activities</b>	<b>697</b>	<b>394</b>	<b>76.9</b>
Extraordinary income	0	54	- 100
Income taxes	-122	-58	> 100
<b>Net income for the year</b>	<b>575</b>	<b>390</b>	<b>47.4</b>
Retained earnings brought forward	3,096	2,956	4.7
<b>Retained earnings</b>	<b>3,671</b>	<b>3,346</b>	<b>9.7</b>

Income from equity investments consists entirely of the net income of Schaeffler Technologies AG & Co. KG.

Interest result consists of the following:

### Schaeffler AG interest result

No. 048

<b>2015</b>			
in € millions	Financial expenses	Financial income	Financial result
Interest expense on financial debt <sup>1)</sup>	-543	0	-543
Fair value changes and compensation payments on derivatives	-14	0	-14
Interest income and expense on pensions and partial retirement obligations	-5	0	-5
Other	0	203	203
<b>Total</b>	<b>-562</b>	<b>203</b>	<b>-359</b>
<b>2014</b>			
in € millions	Financial expenses	Financial income	Financial result
Interest expense on financial debt <sup>1)</sup>	-562	0	-562
Fair value changes and compensation payments on derivatives	-101	0	-101
Interest income and expense on pensions and partial retirement obligations	-2	0	-2
Other	-30	291	261
<b>Total</b>	<b>-695</b>	<b>291</b>	<b>-404</b>

<sup>1)</sup> Incl. transaction costs.

Interest expense on financial debt amounted to EUR 543 m in 2015 (prior year: EUR 562 m) and includes interest paid and accrued on the company's institutional loans of EUR 79 m (prior year: EUR 90 m). The proceeds of the bond issuance, which Schaeffler Finance B.V. transferred to Schaeffler AG via intercompany loans, resulted in interest paid and accrued of EUR 216 m (prior year: EUR 235 m). The prepayment penalty of EUR 177 m payable in connection with the early redemption of certain bonds was also transferred to Schaeffler AG. Interest expense further includes EUR 15 m (prior year: EUR 53 m) in transaction costs and EUR 56 m (prior year: EUR 70 m) in other interest payments.

Changes in the fair value of and compensation payments on derivatives resulted in losses of EUR 14 m (prior year: EUR 101 m) due entirely to changes in the fair value of derivatives embedded in bank debt.

Other operating income primarily included realized and unrealized foreign exchange gains and losses. This line item also includes compensation to subsidiaries of EUR 49 m (prior year: EUR 66 m) for providing collateral for the group financing arrangement held by Schaeffler AG.

Income taxes increased by EUR 64 m to EUR 122 m in 2015 (prior year: EUR 58 m). The increase resulted from current tax expense of EUR 58 m (prior year: EUR 141 m) and deferred tax expense of EUR 64 m (prior year: deferred tax benefit of EUR 83 m). The increase in deferred tax expense compared to the prior year was primarily the result of the reduction in deferred tax assets recognized on investments in partnerships by companies within the Schaeffler AG tax group.

Schaeffler AG intends to pay a dividend of 25 to 35 % of consolidated net income to its shareholders in the future. Both common and common non-voting shares carry dividend rights. Common non-voting shares carry a preferential right to profits consisting of a preferred dividend of EUR 0.01 per share.

The Board of Managing Directors and the Supervisory Board will propose a dividend of EUR 0.34 per common share and EUR 0.35 per common non-voting share to the annual general meeting. This represents a dividend of 28.9 % of net income, before special items related to legal cases and restructuring, attributable to shareholders. In addition, the company intends to exercise the option to pay a special dividend that was created in connection with the listing. The special dividend is expected to amount to EUR 0.15 per common share and per common non-voting share.

## Schaeffler AG financial position and net assets

### Schaeffler AG financial position and net assets

No. 049

in € millions	12/31/2015	12/31/2014	Change in %
<b>ASSETS</b>			
A. Fixed assets			
I. Long-term financial assets			
1. Shares in affiliated companies	14,109	14,109	0.0
2. Loans receivable from affiliated companies	1,798	1,724	4.3
	15,907	15,833	0.5
B. Current assets			
I. Receivables and other assets			
1. Receivables from affiliated companies	11,100	10,745	3.3
2. Other assets	178	123	44.7
II. Cash at banks	449	297	51.2
	11,727	11,165	5.0
C. Excess of plan assets over post-employment benefit liability	6	7	-14.3
<b>Total assets</b>	<b>27,640</b>	<b>27,005</b>	<b>2.4</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
A. Shareholders' equity			
I. Share capital	666	600	11.0
II. Capital reserves	2,359	1,600	47.4
III. Retained earnings	3,671	3,346	9.7
	6,696	5,546	20.7
B. Special reserve	10	13	-23.1
C. Provisions			
1. Provisions for pensions and similar obligations	23	17	35.3
2. Tax provisions	79	125	-36.8
3. Other provisions	142	176	-19.3
	244	318	-23.3
D. Liabilities			
1. Bank debt	654	1,822	-64.1
2. Amounts payable to affiliated companies	19,604	18,805	4.2
3. Other liabilities	52	30	73.3
	20,310	20,657	-1.7
E. Deferred income	67	222	-69.8
F. Deferred tax liabilities	313	249	25.7
<b>Total shareholders' equity and liabilities</b>	<b>27,640</b>	<b>27,005</b>	<b>2.4</b>

Shares in affiliated companies consist primarily of shares in Schaeffler Technologies AG & Co. KG.

Loans receivable from affiliated companies of EUR 1,798 m (prior year: EUR 1,724 m) are primarily receivable from the company's shareholder Schaeffler Verwaltung Zwei GmbH.

Receivables and other assets consisted of the following:

### Schaeffler AG receivables and other assets

No. 050

in € millions	12/31/2015			12/31/2014		
	Due in up to 1 year	Due in 1 to 5 years	Due in more than 5 years	Due in up to 1 year	Due in 1 to 5 years	Due in more than 5 years
Receivables from affiliated companies	11,100	0	0	10,745	0	0
• short-term loans	7,699	0	0	8,292	0	0
• other financial receivables	377	0	0	530	0	0
• other receivables	3,024	0	0	1,923	0	0
Other assets	79	36	63	14	109	0

Short-term loans and other financial receivables relate to Schaeffler AG's cash pooling function and responsibility for the internal group financing of the Schaeffler Group. Other receivables largely consist of Schaeffler AG's claim to the net income of Schaeffler Technologies AG & Co. KG of EUR 3,000 m (prior year: EUR 1,881 m).

Schaeffler AG has been managing the Schaeffler Group's cash pool since October 01, 2014 and had cash at banks of EUR 449 m (prior year: EUR 297 m) at the end of the reporting period.

On September 08, 2015, the extraordinary shareholder meeting of Schaeffler AG passed a resolution to increase its share capital by EUR 66 m by issuing 66 million common non-voting no-par-value bearer shares. The placement price for the shares offered in the listing was set at EUR 12.50 per share. Schaeffler AG received gross proceeds of EUR 825 m from the capital increase.

Provisions decreased by EUR 74 m to EUR 244 m (prior year: EUR 318 m), mainly due to lower tax provisions for expected income tax payments and reduced provisions for pending losses on derivative financial instruments used to hedge the Schaeffler Group's currency risk.

Bank debt decreased by EUR 1,168 m to EUR 654 m (prior year: EUR 1,822 m) due in particular to the proceeds from the placement of common non-voting shares and voluntary prepayments (see “Financial debt”, pages 73 et seq.).

### Schaeffler AG liabilities

No. 051

in € millions	12/31/2015			12/31/2014		
	Due in up to 1 year	Due in 1 to 5 years	Due in more than 5 years	Due in up to 1 year	Due in 1 to 5 years	Due in more than 5 years
Bank debt	0	654	0	0	0	1,822
Amounts payable to affiliated companies	14,558	2,043	3,003	14,194	2,826	1,785
• loans	13,927	2,043	3,003	13,553	2,826	1,785
• other financial debt	574	0	0	566	0	0
• other liabilities	57	0	0	75	0	0
Other liabilities	52	0	0	30	0	0

The increase in short-term loans due to affiliated companies is attributable to Schaeffler AG’s cash pooling function and responsibility for the internal group financing of the Schaeffler Group. Amounts due to affiliated companies include amounts payable to Schaeffler Finance B.V. of EUR 5,052 m (prior year: EUR 4,673 m) relating largely to the transfer of the proceeds from the bond issuances by Schaeffler Finance B.V.

## Closing statement on the dependency report

Closing statement on the report on relations with affiliated companies prepared by the Board of Managing Directors in accordance with section 312 AktG.

Schaeffler AG has been a company dependent on Schaeffler Verwaltung Zwei GmbH, Herzogenaurach, in accordance with section 312 AktG since October 24, 2014. Therefore, the Board of Managing Directors has prepared a report on relations with affiliated companies by the Board of Managing Directors in accordance with section 312 (1) AktG which contains the following closing statement:

“In the legal transactions and measures listed in the report on relations with affiliated companies, our company has in each legal transaction received appropriate compensation in the circumstances known to us at the time the legal transactions were executed or the measures were executed or not executed, and has not been disadvantaged by the fact that such measures were executed or not executed”.

## 3. Supplementary report

No material events expected to have a significant impact on the net assets, financial position, or results of operations of the Schaeffler Group occurred after December 31, 2015.



## 4. Report on opportunities and risks

The Schaeffler Group's risk management system is an integral component of its governance structure and covers both risks and opportunities. The Schaeffler Group is exposed to a large number of potential risks that can adversely affect its business. To be able to appropriately respond to these risks, the company has a risk management system in place to ensure that risks, particularly those to the company's continued existence as a going concern and to its development, are identified on a timely basis.

Risks are defined as possible future developments or events that can lead to adverse deviations from budgeted results, while opportunities are future developments or events that can lead to favorable deviations from budgeted results.

### 4.1 Risk management system

The Schaeffler Group intentionally takes risks in order to meet its corporate objectives. The objective of the risk management system is to identify these risks on a timely basis and to manage them in accordance with the company's risk appetite. This applies particularly to risks to the company's continued existence as a going concern and to its development, which are responded to with appropriate action. Consciously addressing identified risks and regularly monitoring risk factors is designed to increase risk awareness and ensure a continuous improvement process.

The groupwide risk management system is based on the management-oriented enterprise risk management (ERM) approach, which in turn has its basis in the globally recognized framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As described in this framework, the processes of the risk management system are linked to financial reporting and the internal control system. The various components of the COSO Framework can be found in the Schaeffler Group's risk management process described below.

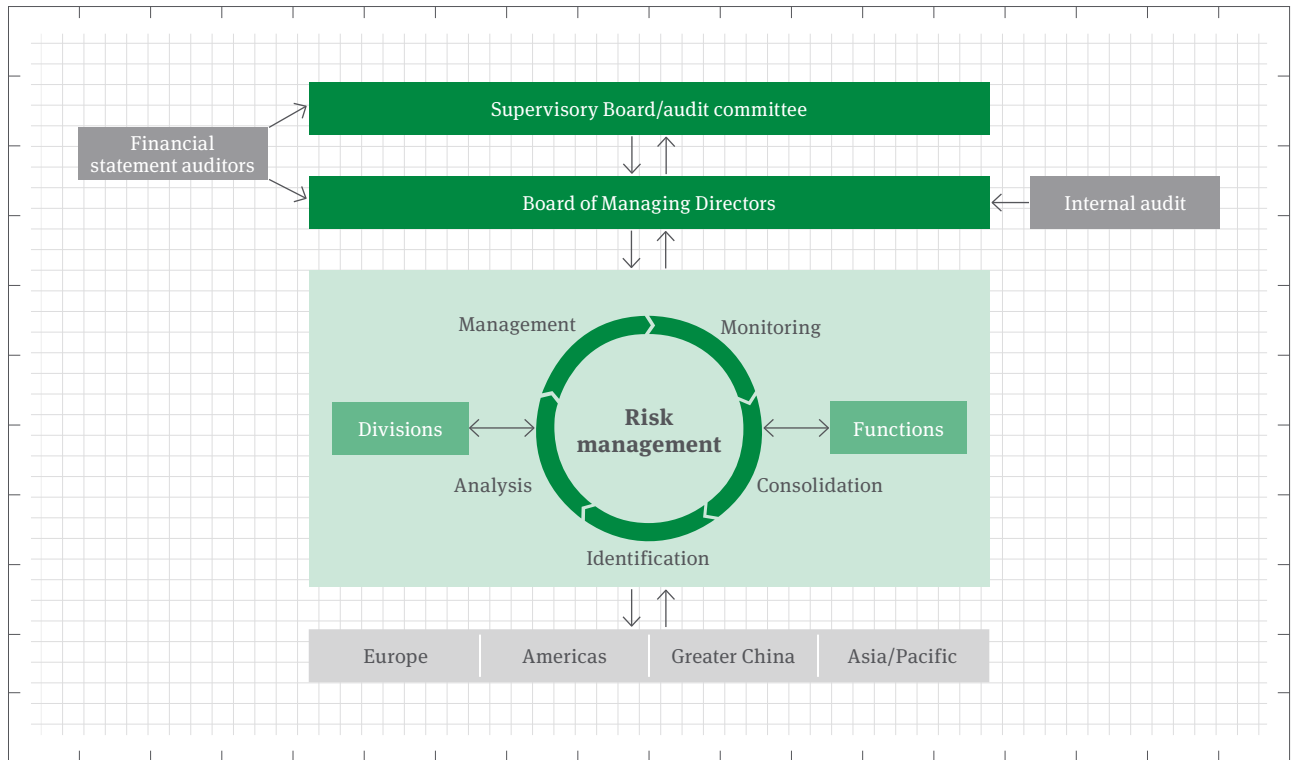
Responsibility for the risk management system rests with the Board of Managing Directors of Schaeffler AG. The Board of Managing Directors regularly reports to the Schaeffler AG audit committee and ensures that necessary risk management measures are approved. Details of the risk management system are set out in a risk management guideline issued by the Board of Managing Directors and published within the Schaeffler Group, making it available to all employees. It contains a description of the process, the allocation of responsibilities, and the structure of the risk management system. The Board of Managing Directors has asked Corporate Risk Management to review and update the risk management system on an ongoing basis and to ensure that existing uniform groupwide standards are implemented and complied with. All instructions from Risk Management are binding on all individuals responsible for risk.

The guideline also defines a groupwide catalogue of risk categories to ensure that all risks along the value chain are monitored. Identified risks have to be assigned to pre-defined risk categories. This catalogue must be completely reviewed by all those responsible for risk in order to ensure uniform and systematic identification of risks. To make risk assessment comparable, suggested risk assessments have been provided for all risk categories.

The risk management system consists of a multi-phase process spanning various levels and organizational units in order to appropriately reflect the matrix structure of the Schaeffler Group. In a bottom-up process, risks are identified and analyzed at the subsidiary level. Based on this analysis, the next step is a top-down analysis by the appropriate global management of divisional and corporate functions. They assess the risks identified within the subsidiaries, taking into account all interdependencies within the Schaeffler Group. This approach ensures that all dimensions of the Schaeffler Group's matrix structure are reflected in the risk management system. Risks are identified at all material Schaeffler AG subsidiaries on a semiannual basis. Operating management is responsible for identifying risks. The time period for identifying risks is three years, longer than the outlook horizon. Subsidiaries included are selected using a defined selection process based on revenue and earnings measures as well as risk factors specific to the business. Different performance measures are applied depending on the business model of each subsidiary. This selection process ensures that all Schaeffler Group subsidiaries that are relevant from a materiality perspective are included in the risk management system. In 2015, 61 of 154 Schaeffler Group entities were included, representing 97 % of revenue and 92 % of the Schaeffler Group's EBIT.

Structure of risk management system

No. 052



The risk management system only deals with risks affecting the Schaeffler Group and its significant consolidated subsidiaries and exceeding a threshold of one million Euros. Risks are assessed based on their monetary impact on net income and their probability of occurrence. In assessing risks, the Schaeffler Group differentiates between gross exposures and net exposures; measures already in place can reduce the gross exposure with respect to both monetary impact and probability of occurrence. The net exposure represents the amount of loss and the probability of occurrence after taking into account any risk mitigation measures in place at the reporting date.

The amount of damage impact and probability of occurrence of each risk is estimated based on its impact on net assets, financial position, and earnings of the Schaeffler Group. The combination of estimated monetary impact and probability of occurrence determines the risk class. The defined 16 risk classes are classified as low (risk class 1 to 7), medium (risk class 8 to 13) or high (risk class 14 to 16) depending on their impact on net assets, financial position, and earnings. Risk classes are presented graphically using a risk matrix.

**Risk matrix**

No. 053



Identified risks are actively managed to achieve the company's intended level of risk mitigation. Management takes measures to avoid or reduce risks or to provide safeguards against them. Any risks that cannot be mitigated by taking appropriate action are classified as business risks. Risks with a low impact on the Schaeffler Group are managed by operating management. Risks with a medium or high potential damage, however, are managed at the corporate level by the Board of Managing Directors of Schaeffler AG. Within its area of responsibility, the Board of Managing Directors decides what measures are required and ensures that they are implemented and kept up to date. The current status is regularly reported to the Board of Managing Directors and the Audit Committee Board.

Corporate risk management reports to the Board of Managing Directors on the risk situation semiannually, which ensures that the Board of Managing Directors is continually updated on the current risk situation of the Schaeffler Group and its change over time. All net exposures with a medium or high potential damage are reported to the Board of Managing Directors. These reports also include an aggregated summary of identified opportunities. Between regular reporting dates, emerging risks are reported using a defined ad hoc process, ensuring timely communication of emerging risks to the Board of Managing Directors.

The Board of Managing Directors of the Schaeffler Group has asked internal audit to perform regular audits in order to satisfy itself that the risk management system is effective. In addition, internal audit issues a statement on the effectiveness of the risk management system each year. The audit follows a two-step process which assesses both the conceptual design and operational implementation, and reviews, in particular, the objectives set and the identification, assessment and management of risk.

In a first step, internal audit reviewed the design, adequacy, and appropriateness of the risk management guideline as the foundation of the Schaeffler Group's risk management system. The operational implementation at selected Schaeffler Group subsidiaries is audited in the second phase of the audit. Comments provided by internal audit are taken into account in the process of continually improving the risk management system.

In response to the growing complexity of the risk management system and to ensure data is protected, Schaeffler has captured risks in a risk management tool developed specifically for this purpose.

## 4.2 Internal control system

Paralleling the risk management system, the Schaeffler Group has a system of internal controls over financial reporting (ICS) ensuring the accuracy of the accounting system and the related financial reporting.

Like the risk management system, the Schaeffler Group's ICS is conceptually based on the COSO Framework. The components defined in the Framework are applied to all levels of the group, especially including the preparation of the separate and consolidated financial statements of Schaeffler AG.

The financial statement information reported by Schaeffler AG and its subsidiaries via a uniform groupwide chart of accounts represents the base data for the preparation of the separate and consolidated financial statements. Many subsidiaries receive support from an internal shared service organization in this process. Schaeffler obtains assistance from external specialists in dealing with certain complex issues requiring extensive specialized knowledge (such as the valuation of pension obligations).

Conceptual requirements and deadlines as well as reasonability checks at the corporate level are designed to ensure that the separate and consolidated financial statements of Schaeffler AG are prepared and issued correctly and on time.

The following significant features of the system of internal controls over financial reporting have been implemented within the Schaeffler Group as part of this process:

- An accounting manual sets out uniform accounting policies, taking into account new financial reporting standards required to be applied for the first time.
- Closing instructions issued quarterly provide Schaeffler AG subsidiaries with information on all relevant issues regarding the content as well as the processes and deadlines for preparing the financial statements.
- Responsibilities regarding the preparation of separate and consolidated financial statements are clearly assigned.
- The operating units and the various staff members involved in the process stay in close contact on accounting matters.

The process for preparing the separate and consolidated financial statements itself is secured by numerous control activities, taking into account materiality. In particular, these include extensive systems-based reasonability checks, controls using reviews (by a second member of staff) performed on a regular basis, and reasonability checks of the quarterly and annual consolidated financial statements at the corporate level.

As at each year-end, management assesses the appropriateness and effectiveness of the ICS in place. To this end, the Schaeffler Group uses a standardized methodology to identify the group companies and processes relevant to ICS, define the required controls and document them in accordance with uniform requirements. This is then followed up with a review of the effectiveness of the defined controls that is performed using a risk-based approach, either by the reporting unit itself, by internal audit, or as part of the audit of the consolidated financial statements.

These arrangements as well as their continuous improvement are designed to provide reasonable assurance that the ICS prevents significant misstatements of the financial statements and consolidated financial statements.

The Board of Managing Directors considers the system of internal controls over the preparation of the annual and consolidated financial statements of Schaeffler AG to be effective for 2015.

## 4.3 Risks

The risks set out below could take on a medium or high potential damage for the Schaeffler Group's earnings, financial position, and net assets within the planning horizon. The expected impact of these risks is reflected in the outlook for 2016. Risks are divided into strategic, operating, legal, and financial risks. Risks are described in decreasing order of the magnitude of their impact on Schaeffler's net assets, financial position, and earnings. Unless the extent to which one or both divisions are affected by these risks is explicitly described, the discussion of the risks relates to both of the Schaeffler Group's divisions.

### Strategic risks

The Schaeffler Group's strategic risks especially include technological risks.

#### **Technological risks**

The markets for the products the Schaeffler Group offers are subject to significant technological change, continuously developing technological standards, changing customer preferences, and constantly emerging innovative new products. Existing technologies and products may be entirely replaced by newly developed and marketed technologies and newly introduced products. For instance, the Schaeffler Group holds an excellent competitive position with respect to drive trains based on the internal combustion engine. This exceptional position may be jeopardized both by increasing electrification and by expiry of key patents. The Schaeffler Group has established its electric mobility business field with the intention of creating a portfolio of products for this field designed to offset any potential future losses in revenue from conventional drive trains. The Schaeffler Group's competitiveness depends fundamentally on its ability to keep up with technological developments, maintain its technology leadership, and continue to manufacture innovative products cost effectively. Not achieving this objective would represent a medium risk to the Schaeffler Group's earnings that would last beyond the planning horizon.



## Operating risks

The key operating risks of the Schaeffler Group are listed below.

### **Loss of market share**

The Schaeffler Group operates in a highly competitive and technologically fast-paced environment. As a result, the company is exposed to the risk of being displaced by existing or new competitors and of its products being replaced by product innovations or by new technological features. Especially the automotive supply sector is characterized by a high level of capital expenditures, a high rate of technological change, constant progress in production technology and high pressure on pricing from OEMs. The Schaeffler Group's key customers include well-known OEMs and suppliers who are themselves subject to significant competitive pressure with respect to innovation and costs and, therefore, strive to obtain price reductions both during the bidding process and throughout the term of supply agreements. To prevent constant price adjustments from impairing margins, the Schaeffler Group is forced to continually improve its production process and reduce expenditures. The Schaeffler Group mainly competes with other international suppliers, and to some degree also with regional suppliers, on price, quality, reliability of supply, and design, as well as on the ability to offer technological support and service worldwide. Should the company become no longer able to compete on one of these factors, customers may decide to obtain products and services from competitors. Due to the tight competition it faces, the Automotive division assesses its risk of losing market share as considerably higher. Besides the price, another deciding factor in the Industrial division and in the Aftermarket business is the ability to deliver, which is constantly being enhanced by systematic improvements in production and delivery logistics.

The Schaeffler Group's key customers represent a substantial proportion of the Schaeffler Group's revenue. Despite this, the company's dependence on individual OEMs or suppliers is limited, since Schaeffler provides a large variety of products to various regions and applications. Thus, individual Schaeffler products may be substituted, but the probability that the customer will completely terminate the relationship is low and such a termination would require a lengthy process.

Loss of market share could have a medium impact on the Schaeffler Group's earnings, financial position, and net assets. Close cooperation with the Schaeffler Group's key customers on product development and strict product quality control measures reduce the likelihood of substitution and, at the same time, help maintain price levels.

**Warranty and liability risks**

One significant factor in customers' decision to purchase the products offered by the Schaeffler Group is their high quality. To secure this level of quality for the long-term, the Schaeffler Group employs a certified quality management system, supported by additional quality improvement processes. However, there is a risk that poor quality products end up getting delivered, causing product liability risk. The use of defective products can lead to damage, unplanned repairs, or recalls on the part of the customer which can result in liability claims or reputational damage. Furthermore, deteriorating product quality can result in increased warranty and liability risk vis-à-vis the Schaeffler Group's customers. The Schaeffler Group responds to such risks by adopting strict quality control measures and continually improving its production processes in order to minimize the probability of warranty and liability risks materializing. Individual risks becoming reality could have a medium impact on the Schaeffler Group's earnings, financial position, and net assets. All product liability risks are insured. The extent of actual reimbursements that can be claimed from insurers can only be assessed on a case-by-case basis.

**Sales risk**

As the Schaeffler Group is a global supplier in the automotive and industrial sector, demand for Schaeffler products is to a large extent driven by global economic conditions. The demand for products of the Automotive division in particular depends considerably on the overall economic trend. This also applies to the engineering sector and industrial growth markets such as renewable energy. In addition, demand is subject to cyclical fluctuations. Particularly in the Automotive division, demand is not only affected by global economic conditions, but also by other factors such as changes in consumption patterns, fuel prices, interest rate levels, and others. The large number of economic factors affecting global demand for automobiles leads to significant fluctuations in automobile production, which makes forecasting sales exactly considerably more difficult. Demand for Industrial products is influenced by a wide range of factors due to the large variety of business fields in which the Schaeffler Group operates. Renewable energy depends heavily on government subsidies. Sales of production machinery, on the other hand, depend on new developments and the resulting need for capital expenditures. Aerospace benefits from various new technological developments. Individual drivers can be identified for each sector.

A decline in demand could have a medium impact on the company's earnings. The distribution of revenue across both divisions and the large degree of diversification within the divisions help reduce the probability of a sales-driven decline in revenue for the Schaeffler Group as a whole.

### **Production risk**

As the Schaeffler Group's production is very capital-intensive, a large proportion of its costs are fixed. At several locations, ensuring the best-possible utilization of capacity requires having only one of a given type of machine available. The failure of one of these bottleneck machines can lead to a bottleneck in supply to internal and external customers. The period between failure of the bottleneck machine and when alternative means of production are set up is key. Alternative means of production can either be set up by a Schaeffler Group plant with comparable production lines or provided by an alternative supplier. To minimize the probability of occurrence, the risk is mitigated by extensive maintenance. Should a failure of a bottleneck machine occur, however, this would represent a medium risk to the Schaeffler Group's earnings. To minimize the loss from such a failure, the Schaeffler Group either identifies alternative suppliers or maintains safety stock.

### **Product piracy risks**

The Schaeffler brands INA, LuK, and FAG are associated with a high standard of quality, making them increasingly susceptible to product piracy. Such pirated products are normally sold at significantly reduced prices, which can lead to increased pressure on the Schaeffler Group's prices. Combating product piracy is a high priority for the Schaeffler Group. The Schaeffler Group protects intellectual property not only using global patents and industrial property rights but also by actively combatting counterfeit products, which damage its image as well as its revenue. Based on the large number of counterfeit products seized, the Schaeffler Group estimates the impact of this issue on its net assets, financial position and earnings to be medium.

## **Legal risks**

The Schaeffler Group's operations give rise to legal risks, for instance those resulting from non-compliance with regulations relevant to the company's operations.

### **Antitrust proceedings**

Current and future investigations regarding violations of antitrust law could have an adverse impact on the net assets, financial position, and results of operations of the Schaeffler Group as well as on its reputation. Possible payment obligations in connection with these investigations and proceedings may result in cash outflows. A Schaeffler Group company continues to be subject to an antitrust investigation in Brazil. The Schaeffler Group has received a request from the antitrust authorities in India. The Schaeffler Group is cooperating with the investigating authorities. The imposition of penalties cannot be ruled out. In addition, a local subsidiary in Korea is subject to legal proceedings, as well. The Schaeffler Group has recognized appropriate provisions. In Spain and Korea, the company has appealed judgments imposing penalties.

In addition, claims for damages have been filed against Schaeffler Group companies as a result of antitrust proceedings. The Schaeffler Group has recognized appropriate provisions for these claims.

**Litigation**

Certain Schaeffler Group companies are involved in various legal cases or could become involved in additional litigation. These or potential legal cases could lead to claims for damages or to other cash outflows. In addition, the company's or their opponents' legal expenses could be significant. These legal cases are mainly related to the Schaeffler Group's business. The Schaeffler Group expects the impact of legal cases on its net assets, financial position and earnings to be medium.

**Compliance risk**

Current and future investigations regarding instances of non-compliance could have a negative impact on the Schaeffler Group's net assets, financial position, and results of operations as well as on its reputation. Possible payment obligations in connection with these investigations and proceedings may result in cash outflows.

## Financial risks

Financial risks include tax risks and pension risks as well as the impact of changes in foreign exchange rates and liquidity risk.

**Tax risks**

The Schaeffler Group is subject to tax audits worldwide. Tax authorities' interpretation of the tax law or of relevant facts made in current or future tax audits may differ from that of the Schaeffler Group. This may lead to adjustments to tax bases and increases in the tax liability. An adjustment to the tax base can have a high impact, particularly on the Schaeffler Group's financial position.

**Pension risks**

The Schaeffler Group has extensive pension obligations, particularly in Germany, the U.S., and the United Kingdom. The obligations in the Anglo-Saxon countries are financed by pension funds. Pension obligations are measured using actuarial valuations based on assumptions regarding possible future events, such as the discount rate, increases in wages, salaries, and pensions, and statistical life expectancy. Plan assets may be invested in various asset classes, such as equity instruments, fixed-income securities, or real estate, which are subject to fluctuations in value. A change in the parameters listed above can have a medium impact on the Schaeffler Group's net assets, particularly in Germany and the United Kingdom.

### **Currency risks**

The Schaeffler Group is exposed to a wide range of currency risks due to its international reach. Potential foreign exchange rate fluctuations can have a medium impact on revenue as well as on procurement costs. The largest such currency risks from operations result from fluctuations in the U.S. Dollar and Chinese Renminbi exchange rates.

Currency risk from financing activities arises from the impact of changes in the U.S. Dollar on a loan tranche denominated in U.S. Dollars and bonds issued in U.S. Dollars.

Currency risk from operations and from financing activities is continually monitored and reported. Currency risk is managed at the corporate level. Currency risk is aggregated across the group and hedged using hedging instruments. Hedging instruments used include forward exchange contracts and cross-currency swaps. Currency risk, market values of foreign currency derivatives, and developments in foreign exchange markets are continuously monitored and managed as part of the risk management system.

To the extent competitors from other currency areas can offer lower prices due to movements in exchange rates, changes in foreign exchange rates can adversely affect the Schaeffler Group's competitive position. The Schaeffler Group's manufacturing locations are spread around the world, enabling the group to reduce the impact of changes in exchange rates on its competitive position. However, exchange rate trends can have a medium impact on the Schaeffler Group's net assets, results of operations, and financial position.

### **Liquidity risk**

The risk that the Schaeffler Group will not be able to meet its payment obligations as they come due is referred to as liquidity risk. The Schaeffler Group differentiates between short-, medium- and long-term liquidity risk.

Liquidity risk can arise if financing needs cannot be met by existing equity or debt financing arrangements. The Schaeffler Group's financing requirements were met throughout the year 2015 by existing financing instruments and by the refinancing arrangements completed.

To avoid unforeseen short- or medium-term liquidity needs to the extent possible, short- and medium-term liquidity risk is monitored and managed using a rolling liquidity budget with a forecasting period of up to twelve months. Short-term fluctuations in cash flow are monitored daily and can be offset using lines of credit. To this end, the Schaeffler Group has a revolving credit facility of one million Euros and other bilateral lines of credit held by various subsidiaries.

The Schaeffler Group's loan and bond agreements, which are generally long-term, contain certain constraints including a requirement to meet certain financial covenants. The creditors are entitled to call the debt prior to maturity under certain circumstances, including if the covenants are not met, which would result in the debt becoming due immediately. Compliance with financial covenants is monitored on an ongoing basis and regularly reported to the lending banks. To date, the company has complied with the financial covenants as stipulated in the debt agreements. The Schaeffler Group also expects to comply with these covenants in the future.

Any non-compliance with the covenants contained in the loan agreements as well as any liquidity requirements exceeding those that can be covered by the existing lines of credit can have a medium impact on the Schaeffler Group's net assets, financial position, and results of operations. The probability of these situations actually occurring is considered low.

## 4.4 Opportunities

The responsibility for identifying and utilizing opportunities lies with operating management. Opportunities are discussed with the Board of Managing Directors during the regular Strategy Dialog and, based on these discussions, strategies are derived to determine the future direction of the Schaeffler Group.

An aggregated overview of the opportunities identified in the Strategy Dialog is included in the reports regularly provided to the Board of Managing Directors and the Supervisory Board of Schaeffler AG. Opportunities are documented in the risk management tool.

The Schaeffler Group's most significant opportunities lie in strategic trends and in changes to the legal environment that may lead to increased demand for Schaeffler products.

### Strategic opportunities

The Schaeffler Group with its range of products and services and its global presence is in a good position to participate in the expected megatrends of the future.

The Schaeffler Group's strategic and operational opportunities specifically result from the following factors:

#### **Global presence**

Shifting activities to local markets enables the Schaeffler Group to tap possible opportunities for reducing cost and improve proximity to the customer. It also allows the company to identify and realize additional potential worldwide. This also bolsters the company's competitive position vis-à-vis competitors from low-wage countries.

#### **Potential in emerging countries**

Increasing affluence in the emerging countries results in the development of a growing middle class there. The newly emerging group of buyers can lead to increasing demand for automobiles and industrial goods. The Schaeffler Group is a supplier to all well-known OEMs and suppliers, generally providing an opportunity to participate in increased demand. The company has invested in significant additional resources in order to increase its local presence in the emerging countries, and plans to continue to pursue this growth strategy.

#### **Global trends**

Increasing demands on OEMs to reduce fuel consumption and emissions as well as increased safety requirements provide the Schaeffler Group with an opportunity to increase its revenue per vehicle. A related issue is the increasing complexity of systems, which provides the opportunity to add new functionalities to its product range.

**OEM trends**

In the last few years, OEMs have increasingly created global platforms aimed at standardizing components and vehicle systems in order to save costs by increasing efficiency. Consequently, OEMs are looking for suppliers who can supply standardized components worldwide. In return, they reduce the number of suppliers and concentrate on a few global suppliers. Suppliers such as the Schaeffler Group benefit from this trend due to their global presence and their ability to supply products to the same technological and quality standards worldwide.

**Public mobility**

The increasing number of people living in mega-cities is making public transportation within cities, such as metros, rapid transit systems, and streetcars, as well as between cities, e.g. by high-speed train, more and more attractive and important. Especially rail vehicles represent an extremely interesting, growing market for the Schaeffler Group. Reliable and innovative rolling bearing solutions for applications ranging from bogie to the drive train are key to modern rail vehicles – and also promise growth for mechatronic products in the age of digitalization in mobility. In addition, the high stresses and resulting wear and tear as well as safety regulations make this market a market of the future not only with respect to OEMs but also to the After-market business.

**Urbanization**

People are increasingly moving to larger cities and metropolises for their job, cultural events, or consumer spending. As a result, energy and water consumption is expected to continue to rise in these central locations in the future. In addition, the increasing electrification of automobiles will drive a growing need for energy. The rising demand for energy and the beginning transition to renewable energy both lead to an inevitable demand for energy from renewable sources. Especially in the wind business, the Schaeffler Group is actively doing research, but is also already operating successfully in the market. Continually expanding the existing expertise in these business fields offers additional future opportunities for growth.

**Globalization**

Increasing globalization is inherently associated with an increase in the volume of air traffic. As a result, growth in the aerospace sector is forecast to be steady. In this sector, issues such as reducing CO<sub>2</sub>, reducing weight, and optimizing fuel consumption are increasingly gaining in importance. The Schaeffler Group is already actively participating in these developments.



## Operational opportunities

### Development of vehicle population

The absolute vehicle population drives growth in the Automotive Aftermarket. Growth depends on various factors, such as demand (determined by kilometers driven and the composition of the vehicle population), services offered, as well as products offered. Besides the vehicle population, increasing content per vehicle provides additional opportunities.

### Digitalization

The internet of things finding its way into the factory has started a fourth industrial revolution. Future scenarios in practice often referred to under the heading “Industry 4.0” are characterized by highly individualized products in very flexible manufacturing conditions. In future, companies will network their machinery, warehousing systems and equipment around the world. The accompanying global digitalization is progressing at an enormous speed everywhere. This requires components which can identify and transmit condition-based information. Rolling bearings play a key role as they are responsible for guidance and positioning as well as supporting process forces and movements. To this end, sensors, actuators, control elements, and software components are being added to rolling bearings. The objectives range from continuous condition monitoring to independently locating solutions in response to error messages or active process control based on data from the bearing. The Schaeffler Group views its sensor-equipped bearings as an opportunity to benefit from this trend.

## Legal opportunities

The Schaeffler Group’s legal opportunities specifically result from the following factors:

**Emission standards:** Constantly tightening exhaust emission standards (Euronorm, CAFE standard) are putting increased pressure on OEMs to use energy efficient solutions in their vehicle drives, consisting of the internal combustion engine and the transmission. The Schaeffler Group as their development partner can support the search for solutions with its innovative strength, creating innovations that manufacturers can turn into a competitive edge.

**Average fleet consumption:** Besides emission standards, government pressure on OEMs is also increasing with respect to the fuel consumption of the vehicles they produce: Governments are prescribing certain limits for fleet consumption, to be achieved via their model mix. This also helps drive developments needed to reduce emissions, benefitting primarily technology-oriented suppliers like the Schaeffler Group, since the requirements established by the market and the law make a strong development partnership between the OEM and its suppliers a necessity.

## Financial opportunities

The Schaeffler Group's financial opportunities specifically result from the following factors:

**Rating:** Rating agencies Standard & Poor's and Moody's have been assigning a company rating for the Schaeffler Group and instrument ratings to the bonds and institutional loans. An improvement in the ratings published by Standard & Poor's and Moody's can provide the Schaeffler Group with more favorable financing conditions and open up new opportunities to obtain financing. In 2015, Standard & Poor's company rating remained unchanged at "BB-" with a stable outlook. Moody's raised its company rating one level to "Ba2" with a stable outlook in October 2015. The instrument rating for secured bonds and loans is still at "BB-" (Standard & Poor's) and "Ba2" (Moody's). The instrument rating for unsecured bonds is also unchanged at "B" (Standard & Poor's) and "B1" (Moody's).

**Financial markets:** Favorable trends in interest and foreign exchange rates can positively impact the Schaeffler Group's financial result and earnings. The company constantly monitors the financial markets in order to detect any impact on the Schaeffler Group on a timely basis and identify any potential need for action.

## Overall assessment of Schaeffler Group opportunities and risks

The outlook issued by the Schaeffler Group is not in jeopardy, including from the existing risks. In addition to the specific risks described in the management report, unexpected developments significantly damaging or harming the company's production process, customer relationship, or reputation can occur at any time.

The Schaeffler Group's situation with respect to risks remains largely unchanged from the prior year. In some cases, the assessment of the potential damage of certain medium risks has changed, but these changes do not affect the overall assessment of the group's risks.

The overall assessment of the significant opportunities and risks does not indicate any risks which, either individually or in combination with other risks, jeopardize the company's continued existence as a going concern.

## 5. Report on expected developments

### 5.1 Expected economic and sales market trends

Economists expect the global economy to grow by 3.1 % in 2016, which is merely in line with the growth rate for 2015 (Oxford Economics, February 2016). Based on this forecast, the Schaeffler Group anticipates global economic growth of approximately 3 % in 2016.

The global economic outlook is subject to a number of uncertainties. If the recent turmoil in the financial markets continues or increases, a loss in consumer confidence and further tightening of financing conditions could ensue. Should the Chinese economy grow more slowly than expected, this would have a significant international impact via that country's exports, and would also further speed up the deterioration of global commodity prices. Although a "hard landing" for China is generally considered unlikely, factors such as excess capacity in the real estate sector and high debt levels throughout the economy pose risks to the country's further development. The tightened U.S. interest rate policy entails the risk of an outflow of capital from a number of emerging and developing countries. A further appreciation of the U.S. Dollar could also put pressure on these countries' currencies and lead to credit crises where foreign debt is high. The increase in the existing geopolitical tensions in many regions around the world also harbors risks for global trade and the capital movements.

Based on the forecasts of research institute IHS, the Schaeffler Group expects to see global automobile production, measured in terms of the number of passenger cars and light commercial vehicles produced, increase by approximately 2 % in 2016. The Schaeffler Group's growth expectation for automobile production in the Europe region is approximately the same, and in the Americas region automobile production is expected to rise by approximately 1 %. In the Asia/Pacific region, automobile production is expected to rise by approximately 1 % in total, while the Schaeffler Group expects an increase of approximately 5 % for Greater China.

The Schaeffler Group expects global industrial production to grow slightly in 2016. This expectation is based on the company's own estimates, taking into account the large number of markets in which the Schaeffler Group's customers operate.

## 5.2 Schaeffler Group outlook

Outlook 2016

No. 054

	Outlook 2016	Actual 2015
Revenue growth in % compared with prior year (at constant currency)	3 to 5 %	3.5 %
EBIT margin (before special items)	12 to 13 %	12.7 %
Free cash flow	Approx. EUR 600 m	EUR 370 m

The Schaeffler Group expects its revenue to grow by 3 to 5 % excluding the impact of currency translation in 2016. This outlook is based on the assumption that global automobile production will expand by approximately 2 % and worldwide industrial production will grow slightly.

The Schaeffler Group expects its Automotive division to continue to grow faster than global automobile production of passenger cars and light commercial vehicles in 2016. Existing volume supply agreements with OEM customers confirm this estimate. Given the increasing number of passenger cars worldwide, the Aftermarket business will also likely continue to grow.

In the Industrial division, sluggish order intake in the fourth quarter of 2015 and the still strained economic environment in certain sectors suggest flat or slightly declining revenue levels in 2016.

Based on these considerations, the company expects to generate an EBIT margin before special items of 12 to 13 % in 2016<sup>6</sup>.

The Schaeffler Group expects approximately EUR 600 m in free cash flow for 2016.

Herzogenaurach, February 22, 2016

The Board of Managing Directors

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<sup>6</sup> Please see pages 68 et seq. for further detail on special items.

# Corporate governance

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<sup>7</sup> Included in the management report.

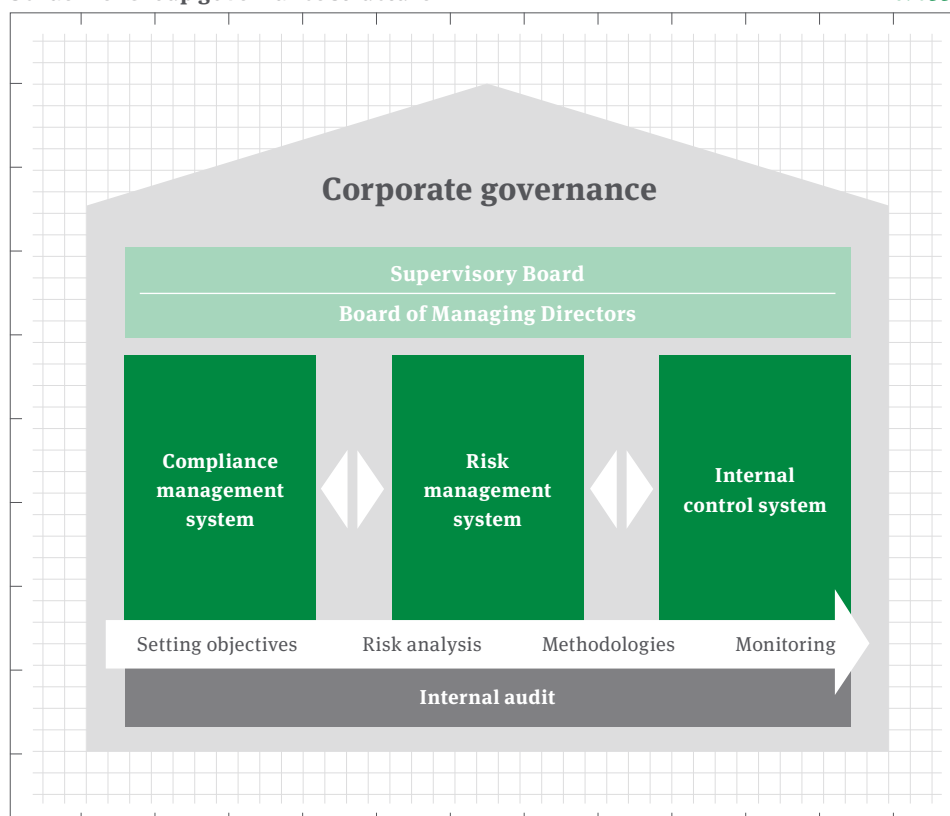
# 1. Governance structure

The Schaeffler Group's governance structure is aimed at coordinating the activities of the governance subsystems subordinate to the Supervisory Board and the Board of Managing Directors:

- Compliance management system
- Risk management system
- Internal control system and
- Internal audit

Schaeffler Group governance structure

No. 055



Coordinating the operation of the subsystems helps to identify, assess, monitor, and manage risks to the continued existence and development of the Schaeffler Group early on.



To this end, the Schaeffler Group established the Group Compliance & Risk Committee (GCRC) in the first quarter of 2015. It consists of the heads of the subsystems and the heads of other risk and corporate functions. The GCRC is responsible for assisting the Board of Managing Directors with its organizational responsibilities with respect to compliance and risk management. Among the key objectives of the GCRC are defining and delineating responsibilities and interfaces and preventing redundancies in the process. In addition, it is expected to create a consistent and complete view of the risk situation in the divisions, functions, and regions based on a uniform measurement and prioritization methodology. A further objective is developing and monitoring risk mitigation activities. The Compliance & Risk Working Group consisting of staff representatives from the functions represented on the GCRC provides operational support to the GCRC.

The activities of the subsystems within the governance structure are coordinated based on the internationally recognized three lines of defense model. It assigns clear responsibility for dealing with risks to the company's continued existence or development and is based on the principle that primary responsibility for a risk lies with its originator.

#### **Three lines of defense model**

- In the **first**, operating, **line of defense**, operating business units are responsible for developing and performing controls to prevent risk. If prevention is not feasible, risks have to be identified and reduced to an appropriate level.
- The **second line of defense** defines global standards and controls, regularly monitors compliance with them, and reports on their effectiveness. Classic risk functions such as controlling, risk management, compliance, and legal are assigned to the second line.
- The **third line of defense** is the audit by Internal Audit. Independent audits are designed to evaluate control effectiveness and identify improvements.

The first line of defense is responsible for any risks materializing. If, however, the first line of defense can demonstrate that it has performed all relevant controls in full and in accordance with the standards and control requirements set by the second line of defense, responsibility rests with the second line of defense.

## 1.1 Compliance management system

Integrity is one of the mainstays of the Schaeffler Group's manner of conducting business. Under the Schaeffler Code of Conduct, the Board of Managing Directors and all employees are required to comply with all applicable local, national, and international laws and regulations, wherever the Schaeffler Group does business. A compliance organization covering the entire Schaeffler Group provides them with support in doing so.

The Schaeffler Group's Board of Managing Directors emphatically supports the underlying compliance management system (CMS) and the necessity of consistently complying with legal requirements and internal regulations.

The CMS is based on the three pillars prevention, detection, and reaction and is part of the second line of defense within the Schaeffler Group's governance structure. The CMS in its current state is the result of a comprehensive revision initiated by the Board of Managing Directors in 2013 as part of the "Compliance Fit & Proper" program, a component of the "ONE Schaeffler" program. Following the successful completion of a review of the underlying conceptual design in accordance with the Principles for the Proper Performance of Reasonable Assurance Engagements Relating to Compliance Management Systems IDW AsS 980 by an external audit firm in 2014, the external audit firm is scheduled to review the implementation of the CMS in late 2016.

The CMS comprises, in particular, managing and monitoring the activities necessary to prevent, or detect early on, violations of law in the area of corruption, money-laundering, competition and antitrust law, and economic criminal activity. It also serves to actively manage risk and protect the company and its employees. The CMS consists of seven core components: Compliance culture, compliance objectives, vulnerability analysis, compliance program, compliance organization, communication, and monitoring and improvement.

The compliance organization derives its arrangements for preventing violations of antitrust and competition legislation, corruption, economic crime, and money-laundering from a regular groupwide risk analysis using a risk-based approach. The risk analysis provides information on the current situation with respect to risks arising from operations and on the effectiveness of the prevention arrangements in place. The analysis is primarily based on interviews with management and employees of all divisions and regions with the objective of obtaining from the interviewee estimates of the probability of occurrence and the size of the potential loss of pertinent risk scenarios that are as close to the business processes as possible. These estimates are supplemented by sector and expert knowledge, experience with actual compliance violations, results of controls and audits, as well as by using operation-, market-, and country-specific risk criteria ranging from publicly available risk indicators, such as the Corruption Perception Index compiled by Transparency International, to issues regarding the location-specific design of Sales and Distribution.

The Schaeffler Group's Group Chief Compliance Officer heads up the compliance organization and reports directly to the Chief Executive Officer. The Group Chief Compliance Officer also has a reporting line to the Chairman of the Supervisory Board and reports to the chairman of the audit committee on a regular basis. The compliance department provides the Group Chief Compliance Officer with the support of a network of experienced compliance specialists spanning all of the Schaeffler Group's Europe, Americas, Greater China, and Asia/Pacific regions.

When it comes to defining and monitoring appropriate groupwide compliance standards and activities, he utilizes a centralized team of experts at the head office in Herzogenaurach which was expanded in 2015.

Measures designed to prevent compliance violations include the Schaeffler Group's Code of Conduct, guidelines on behavior in compliance with antitrust and competition legislation, fighting corruption, and protecting confidential information, web-based and classroom training sessions, and a compliance helpdesk available for consultation on specific compliance issues. In addition, the company has also put in place arrangements for detecting any compliance violations; these arrangements include audits and controls as well as a whistleblower system, which also facilitates reporting violations on an anonymous basis.

In 2015, the Schaeffler Group established a separate team of specialists, located in the compliance department, which is responsible for independently investigating alleged violations and following up on the necessary consequences. It analyzes the causes of misconduct, derives suggestions for remedial measures, and follows up on their implementation. Violations of laws and regulations or of internal rules on compliance are not tolerated and result in disciplinary action.

The Schaeffler Group has further expanded its arrangements and measures for complying with legal requirements and internal rules in 2015. Among other things, the increase in staffing levels within the compliance organization was completed, the Group Compliance & Risk Committee (GCRC) was established, and the Code of Conduct was expanded. In addition, a more extensive scenario-based risk analysis was performed for the Europe region and started in the other regions, as well. Implementation of a register of contacts with competitors was initiated, as was a groupwide business partner due diligence process. This underlines the Schaeffler Group's expectations of its business partners with respect to acting with integrity and abiding by rules.

These developments have largely brought the Compliance Fit & Proper program to completion in 2015. Certain steps remain to be implemented in 2016.

In preparation for Schaeffler AG's listing on October 09, 2015, the Schaeffler Group has also expanded its arrangements for complying with the legal requirements related to the capital markets. In addition to continuing the groupwide insider list, the members of the Board of Managing Directors and the Supervisory Board as well as employees were informed of their obligations under capital markets laws and the consequences of the listing, and an insider committee was established whose activities include maintaining the insider list, deciding on how to deal with potential insider information, and ensuring compliance with the requirements of capital markets laws.

Significant compliance-related risks are set out in the report on opportunities and risks (see pages 93 et seq.).

## 1.2 Risk management system

Like the compliance management system, the risk management system is part of the second line of defense in the Schaeffler Group's governance structure. It comprises all activities and arrangements made to identify, assess, prevent, and mitigate risk. A risk is defined as the danger that events or actions will prevent a company from achieving its plan or successfully implementing its strategies. For all identified risks, the probability of occurrence and possible impact on achieving objectives are continually identified, assessed, appropriate action initiated and followed-up on. Please refer to pages 93 et seq. in the report on opportunities and risks for a detailed discussion of the risk management system.

## 1.3 Internal control system

The second line of defense also comprises the Schaeffler Group's internal control system. The internal control system consists of technological and organizational arrangements and controls that have been systematically designed to ensure compliance with guidelines and to prevent loss or damage that may be caused by the company's employees or by third parties. Controls can be performed both process-dependent or independently of the process. The Schaeffler Group's internal control system is based on the COSO model and consists of the following components: Control environment, risk assessment, control activities, information and communication, and monitoring. It is focused on financial reporting and represents the arrangements and controls ensuring that the consolidated financial statements are prepared in accordance with financial reporting standards and ensuring accurate external financial reporting. Please refer to pages 93 et seq. in the report on opportunities and risks for a detailed discussion of the internal control system.

## 1.4 Internal Audit

Internal Audit represents the third line of defense of the Schaeffler Group's governance structure. Internal Audit provides independent and objective audit and consulting services focused on adding value and improving business processes. The internal audit function contributes to meeting the corporate objectives the Schaeffler Group has communicated by assessing and helping to improve the effectiveness of risk management, controls, and management and supervisory processes using a systematic and goal-oriented approach. Responsibility for establishing the internal audit function and for its effectiveness rests with the Board of Managing Directors and cannot be delegated. Hence, Internal Audit reports to the entire Board of Managing Directors. Organizationally, Internal Audit is assigned to the Chief Executive Officer of Schaeffler AG.

The Schaeffler Group has made the following arrangements to ensure the independence and objectivity of Internal Audit:

- direct organizational link to the Chief Executive Officer to ensure there are no gaps in audit coverage;
- neither the head of Internal Audit nor audit staff have any operational responsibilities;
- reports annually on potential impairment of independence to the CEO/the Board of Managing Directors/audit committee;
- audit planning and significant changes therein have to be approved by the Board of Managing Directors and documented appropriately.

Internal Audit consists of the functions "Methods, Reporting and Quality", "Corporate Audits", and the "IT and Special Audits" unit. It has locations in each of the four regions, and each region has its own head of Internal Audit.

Internal Audit serves to safeguard operations and assets and specifically audits whether the principles of efficiency, expediency, security, and "orderliness" are observed in operational processes. Their responsibilities specifically include, but are not limited to, the following activities:

- audit and assessment of the appropriateness, efficiency, and effectiveness of the internal control system;
- audit and assessment of the appropriateness, efficiency, and effectiveness of the management and supervisory processes;
- audit and assessment of the finance and accounting systems, the information system, and the reporting system.
- audit and assessment of the effectiveness of risk management;
- audit and assessment of the effectiveness of arrangements for preventing and detecting fraud;
- audit of arrangements for safeguarding assets;
- audit and assessment of the implementation of and compliance with legal requirements and the company's internal rules ("orderliness");
- performance of special investigations with respect to fraud, conflicts of interest and other irregularities.

Internal Audit performs systems- and effectiveness audits. Systems audits either involve auditing selected areas (e.g. procurement) at subsidiaries or documenting and analyzing the actual processes in place at foreign (distribution) companies. Any findings documented during such systems audits are assigned to one of three assessment areas („orderliness”, “internal monitoring system”, “business processes”). Effectiveness audits involve testing the effectiveness of the risk management system or the internal control system of subsidiaries. Compliance risks are covered in the “orderliness” assessment area.

In a preliminary study done in preparation for audit assignments, Internal Audit exchanges information with other departments (e.g. Compliance, Controlling, Legal, Quality, Risk Management) in order to obtain sufficient reliable, relevant, and constructive information to achieve its audit objectives. Internal Audit performs its audit assignments on location at the business units/subsidiaries.

In its audit reports, Internal Audit communicates its findings, its recommendations for mitigating risk, and the persons responsible for implementation, with whom they agree binding implementation dates. In a monitoring and follow-up process, Internal Audit monitors implementation of its recommendations for remediating identified deficiencies.

In accordance with the International Standards for the Professional Practice of Internal Auditing 2013 of the Institute of Internal Auditors (IIA), the head of Internal Audit maintains a quality assurance and improvement program covering all of Internal Audit’s responsibilities.

## 2. Remuneration report

This remuneration report describes the main features of the remuneration system for the Board of Managing Directors, i.e. the remuneration structure and amount. In addition, the remuneration report provides disclosures about benefits the company has promised to provide to the members of the Board of Managing Directors upon termination of their employment as well as disclosures on the remuneration of the Supervisory Board.

### 2.1 Main features of the remuneration system for the Board of Managing Directors in effect since the listing

As stipulated in the German Corporate Governance Code (GCGC) and section 87 German Stock Companies Act (“Aktiengesetz”-AktG), the Supervisory Board determines the total remuneration and reviews the remuneration scheme on a regular basis, which includes reviewing the appropriateness of the remuneration of the Board of Managing Directors once a year. To ensure that the total remuneration is appropriate, the Supervisory Board takes into account customary levels of remuneration both in other companies of comparable size within the same industry and country (horizontal comparison) and in comparison to the wage and salary structure within the enterprise itself (vertical comparison of remuneration of Board of Managing Directors to the company’s workforce).

In preparation for the listing, Schaeffler AG’s Supervisory Board approved the enhancement of the remuneration system for the members of the Board of Managing Directors on September 08, 2015. This remuneration system is effective for all members of the Board of Managing Directors whose term of office extends beyond December 31, 2015 and became effective retroactively as at January 01, 2015 on the date of the listing, October 09, 2015.

The total remuneration of the Board of Managing Directors is performance- and success-based and supports the Schaeffler Group’s operational and strategic objectives in a dynamic and international environment. The remuneration of each member of the Board of Managing Directors consists of a fixed amount as well as short- and long-term variable components. Variable remuneration is largely long-term in nature. In addition, the members of the Board of Managing Directors are granted customary fringe benefits, pension commitments, insurance benefits, and the use of a company car.

## Remuneration of Board of Managing Directors – system and components

No. 056

Components	Performance metric	Range of remuneration	Conditions for payment	Payment cycle
<b>Non-performance-based components</b>				
Fixed remuneration	Function and responsibility	None	Contractually agreed	Monthly
Fringe benefits	Function and responsibility	None	Contractually agreed	Payment not applicable
<b>Performance-based components</b>				
Short-term bonus	Free cash flow (FCF) and Schaeffler Value Added (SVA) of the Schaeffler Group (weighted equally) <sup>1)</sup>	0 % –150 % (target bonus = 100 %)	Meeting annual performance targets	Annually
Long-term bonus	Share price trend underlying performance share units (PSUs) granted and meeting targets consisting of:	Maximum is the number of PSUs granted, minimum number is nil		
Performance Share Unit Plan (PSUP)	50 % service condition and 25 % relative Total-Shareholder-Return-(TSR)-based performance target and 25 % cumulative FCF-based performance target	Share price cap: double the share price at grant date	Meeting the service condition and/or performance targets	4 years after grant date
<b>Retirement benefits</b>			Retirement or triggering event	Generally monthly

<sup>1)</sup> Starting in 2016, the performance of divisional CEOs is also measured based on the relevant division's SVA and working capital.

### Non-performance-based components

#### Fixed remuneration

Each ordinary member of the Board of Managing Directors receives an identical amount of fixed remuneration; the Chief Executive Officer receives twice this amount.<sup>8</sup> Fixed remuneration is paid in twelve equal installments.

#### Fringe benefits

Fringe benefits include the use of a company car, including for private purposes, and customary insurance benefits such as directors' and officers' liability insurance (D&O insurance). This D&O insurance policy includes a deductible provision that is in accordance with section 93 (2) Sentence 3 AktG. Tax on the pecuniary advantage related to fringe benefits granted is paid individually by each member of the Board of Managing Directors. No loans were granted to members of the Board of Managing Directors in 2015.

<sup>8</sup> This applies to all members of the Board of Managing Directors whose term of office extends beyond December 31, 2015.



## Performance-based components

### Short-term variable component – short-term bonus

Since the date the agreements amending the employment contracts of the members of the Board of Managing Directors became effective, members of the Board of Managing Directors whose term of office extends beyond December 31, 2015 receive an annual short-term bonus if the relevant targets are met. The amendment agreements set out the individual target-based bonus awarded if 100 % of the performance targets are met.

The Supervisory Board determines the performance target tiers on an annual basis. The targets underlying the remuneration reflect the strategic direction of the Schaeffler Group. The amount of the short-term bonus payable is determined based on the extent to which the performance targets have been met. The performance targets are weighted equally and consist of the Schaeffler Group's free cash flow (FCF) and Schaeffler Value Added (SVA).<sup>9</sup>

FCF is generally calculated based on the Schaeffler Group's cash flows from operating activities and from investing activities for the relevant year. SVA is generally based on the Schaeffler Group's EBIT less its cost of capital.<sup>10</sup>

At the beginning of each year, the Supervisory Board can determine other strategic targets in addition to the FCF and SVA performance targets. The short-term bonus may lapse in its entirety if the minimum targets are not met. In any event, payment of a short-term bonus is limited to 150 % of the individual target-based bonus, regardless of whether an additional strategic target is set. The short-term bonus earned during a year is paid in a lump sum once the extent to which targets have been met has been determined and the Supervisory Board has passed the relevant resolution.

### Long-term variable component – long-term bonus (Performance Share Unit Plan, PSUP)

On September 08, 2015, the Supervisory Board passed a resolution to implement a share-based remuneration instrument in form of a PSUP for members of the Board of Managing Directors whose term of office extends beyond December 31, 2015, in order to align the interests of the Board of Managing Directors with those of the shareholders and to promote the sustainable development of the Schaeffler Group.

One performance share unit (PSU) conveys the right to a cash payment amounting to the average share price of the last 60 trading days of the performance period provided the previously defined performance targets have been achieved. The PSUP is granted in annual tranches. Each tranche has a performance period of four years beginning on January 01 of that year. The target amount per tranche is stipulated in the agreements amending the employment contracts of the members of the Board of Managing Directors and is aimed at creating a remuneration structure that is largely oriented toward the long term. The Supervisory Board sets the performance target tiers on an annual basis. The target amount of the variable long-term remuneration exceeds the target bonus under the variable short-term remuneration. In addition, the number of PSUs granted to each individual member of the Board of Managing Directors is based on that member's duties and responsibilities. The number of PSUs cannot increase.

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<sup>9</sup> Starting in 2016, the performance of divisional CEOs is also measured based on the relevant division's value added and working capital.

<sup>10</sup> See section "Value management" on page 83.

Vesting of PSUs is linked to the following three conditions:

- 50 % of PSUs (base number) are granted subject to a service condition. The base number is only paid out if the member of the Board of Managing Directors remains employed as a member of a governing body of Schaeffler AG and is not under notice of termination at the end of the performance period.
- 25 % of the PSUs are granted subject to a long-term FCF-based performance target which involves a comparison of cumulative FCF for the performance period to the target FCF.
- 25 % of the PSUs are granted subject to a relative performance target based on total shareholder return (TSR) (share price performance including dividends). To determine to what extent these PSUs have vested, TSR for Schaeffler AG's common non-voting shares is compared to the TSR of companies in the benchmark group (MDAX) over the vesting period.

The 2015 tranche of PSUs subject to FCF- and TSR-based performance targets vests based on the following target tiers.

#### PSUP performance targets (1)

No. 057

Cumulative free cash flow for the performance period	Number of FCF PSUs vested in %
Cum. FCF compared to target FCF > 6.01 %	100 %
2.01 % < cumulative FCF compared to target FCF < 6.00 %	75 %
-2.00 % < cumulative FCF compared to target FCF < 2.00 %	50 %
-6.00 % < cumulative FCF compared to target FCF < -2.01 %	25 %
Cum. FCF compared to target FCF < -6.01 %	0 %

#### PSUP performance targets (2)

No. 058

TSR outperformance over the performance period	Number of TSR PSUs vested in %
> 25 %	100 %
5 % < TSR outperformance ≤ 25 %	75 %
-5 % < TSR outperformance ≤ 5 %	50 %
-25 % < TSR outperformance ≤ -5 %	25 %
≤ -25 %	0 %

<sup>11</sup> Taking into account the rules applicable to leavers.

The target amounts for the FCF-based performance target are derived from the Schaeffler Group's medium-term plan, and the Supervisory Board reviews and sets them before each tranche is granted. The payment under a PSU is capped at double the underlying share price at the grant date. The underlying share price of the 2015 tranche is EUR 13.15. The PSUs granted to each individual and the related fair values in 2015 are as follows:

<b>PSUs granted in 2015<sup>1)</sup></b>				<b>No. 059</b>
	Target amount in € thousands	Number of PSUs granted on October 09, 2015 <sup>2)</sup>	Grant date fair value per PSU in €	Grant date fair value in € thousands
<b>Klaus Rosenfeld (CEO)</b>	1,300			
Base number of PSUs		49,429	11.58	572
FCF PSUs		24,715	11.58	286
TSR PSUs		24,715	6.96	172
<b>Norbert Indlekofer</b>	950			
Base number of PSUs		36,121	11.58	418
FCF PSUs		18,061	11.58	209
TSR PSUs		18,061	6.96	126
<b>Prof. Dr. Peter Pleus</b>	950			
Base number of PSUs		36,121	11.58	418
FCF PSUs		18,061	11.58	209
TSR PSUs		18,061	6.96	126
<b>Dr. Stefan Spindler</b>	533			
Base number of PSUs		20,278	11.58	235
FCF PSUs		10,140	11.58	117
TSR PSUs		10,140	6.96	71
<b>Prof. Dr. Peter Gutzmer</b>	950			
Base number of PSUs		36,121	11.58	418
FCF PSUs		18,061	11.58	209
TSR PSUs		18,061	6.96	126
<b>Dr. Ulrich Hauck</b>	600			
Base number of PSUs		22,813	11.58	264
FCF PSUs		11,407	11.58	132
TSR PSUs		11,407	6.96	79
<b>Oliver Jung</b>	950			
Base number of PSUs		36,121	11.58	418
FCF PSUs		18,061	11.58	209
TSR PSUs		18,061	6.96	126
<b>Total</b>	<b>6,233</b>	<b>474,016</b>	<b>-</b>	<b>4,940</b>

<sup>1)</sup> Kurt Mirlach and Robert Schullan left the Board of Managing Directors of Schaeffler AG as at December 31 and April 30, 2015, respectively. They were not granted any PSUs for 2015.

<sup>2)</sup> Equals the number of PSUs outstanding as at December 31, 2015.

The PSUs granted are classified and measured as cash-settled share-based compensation. The fair value for PSUs subject to the TSR-based performance target was determined using a binomial model. The fair value of the base number and of the PSUs subject to the FCF-based performance target was determined based on the price of the company's common non-voting shares as at the measurement date. The valuation model takes into account the terms of the contract under which the PSUs were granted (including payment floors and caps, target tiers, expected dividend payments, as well as the volatility of the company's common non-voting shares and of the benchmark index).

The valuation as at the grant date reflects the following input parameters:

- risk-free interest rate for the remaining performance period of 0.2 %,
- expected dividend yield of Schaeffler AG common non-voting shares over the performance period of 2.66 %,
- expected volatility of Schaeffler AG common non-voting shares of 33.34 %,
- expected volatility of the benchmark index of 18.97 %,
- expected correlation coefficient between the benchmark index and Schaeffler AG common non-voting shares of 0.34.

#### **Retirement benefits**

Every current member of the Board of Managing Directors is entitled to retirement benefits. The pension resulting from the various individual retirement benefit commitments is generally calculated as a percentage of pensionable employment income based on the duration of the individual's service on the Board of Managing Directors. Individual percentages vary between 1.50 % and 3.0 % per year of membership on the Board of Managing Directors. Benefit commitments for each member of the Board of Managing Directors are tailored individually. The pension received by a member of the Board of Managing Directors is based on their last pensionable employment income before retirement. Individual maximum pensions range from 40 % to 60 % of pensionable employment income.

Pension payments commence in the form of retirement benefits if employment ends at or after attainment of the age of 65, and in the form of disability benefits if employment ends due to disability. Beneficiaries are entitled to claim a reduced pension early as a retirement benefit beginning at age 60. Upon the death of a member of the Board of Managing Directors, the spouse is entitled to between 50 % and 60 % of the pension as a surviving dependants' pension. Surviving dependent children are entitled to 10 % or 20 % of the pension, respectively depending on whether they have lost one or both parents.

The pension increases by 1.0 % each year beginning at retirement. The pension of a member of the Board of Managing Directors is subject to annual increases by the same percentage as the consumer price index in Germany. This also applies to disability, widows' and orphans' pensions.

The following table summarizes the service cost and defined benefit obligation of pension benefits earned up to December 31, 2015, calculated in accordance with IAS 19 and based on the beneficiary's current age and years of service.

**Service cost for 2015 and defined benefit obligations as at December 31, 2015 in accordance with IAS 19**

No. 060

in € thousands	Year	Service cost	Defined benefit obligation
Klaus Rosenfeld (CEO)	2015	1,240	7,875
Norbert Indlekofer	2015	205	5,300
Prof. Dr. Peter Pleus	2015	380	5,282
Dr. Stefan Spindler	2015	164	168
Prof. Dr. Peter Gutzmer	2015	273	4,178
Dr. Ulrich Hauck	2015	337	345
Oliver Jung	2015	288	2,166
<b>Former members of the Board of Managing Directors</b>			
Kurt Mirlach <sup>1)</sup>	2015	266	4,391
Robert Schullan <sup>2)</sup>	2015	130	3,824
<b>Total</b>		<b>3,283</b>	<b>33,529</b>

<sup>1)</sup> Kurt Mirlach left the Board of Managing Directors of Schaeffler AG as at December 31, 2015.

<sup>2)</sup> Robert Schullan left the Board of Managing Directors of Schaeffler AG as at April 30, 2015. His employment contract continued until December 31, 2015.

**Change in remuneration system**

When the new remuneration system for the Board of Managing Directors went into effect, the members of the Board of Managing Directors were granted a one-time sign-on bonus to offset the shortfall in liquidity caused by the change. The sign-on bonus was only granted to members of the Board of Managing Directors whose term in office extends beyond December 31, 2015. The first half of the sign-on bonuses was paid in October 2015 and the second half will be paid in October 2016.

In addition, certain members of the Board of Managing Directors have received interest-free advances on their variable short-term remuneration in connection with the change in the remuneration system and adjustment of their fixed remuneration. Advances paid in 2015 amounted to EUR 525 thousand.

### **Benefits granted in connection with the termination of membership on the Board of Managing Directors**

Payments made to a member of the Board of Managing Directors upon early termination of their employment agreement without due cause are limited to two years' remuneration (severance cap) and solely represent compensation for the remaining term of the employment agreement. The severance cap is generally calculated based on the total remuneration for the last full financial year and also on the expected total remuneration for the current year where applicable.

Members of the Board of Managing Directors whose employment has terminated are generally subject to a noncompetition clause for a period of two years following termination of their employment agreement. In return, they are entitled to compensation in the amount of 50 % of the average contractual remuneration granted to the member of the Board of Managing Directors for the last twelve months before the end of their employment. Contractual remuneration includes both performance-based and non-performance-based remuneration components. Income from other employment is deducted from the compensation payment in accordance with section 74c HGB. Dr. Ulrich Hauck and Dr. Stefan Spindler, who were appointed to the Board of Managing Directors in 2015, were guaranteed such noncompetition compensation in their employment agreements.

Robert Schullan left Schaeffler AG's Board of Managing Directors early at his own request effective April 30, 2015. He was entitled to receive non-performance-based remuneration including all fringe benefits until December 31, 2015, a total of EUR 301 thousand.

### **External activities of members of the Board of Managing Directors**

The members of the Board of Managing Directors have agreed to work exclusively for the company. External activities, whether paid or unpaid, require prior approval by the executive committee of the Supervisory Board. This ensures that neither the time commitment involved nor the related remuneration conflict with the individual's responsibilities towards Schaeffler AG. External activities representing a position on legally required supervisory boards or similar supervisory bodies of commercial enterprises are listed in section 5 "Governing bodies of the company". Serving in such positions in relation to group companies is not remunerated separately.

### **Appropriateness of the remuneration of the Board of Managing Directors**

In accordance with section 87 AktG, the Supervisory Board of Schaeffler AG ensures that the remuneration of individual members of the Board of Managing Directors bears a reasonable relationship to the duties and performance of such member as well as the condition of the company. The Supervisory Board obtained the assistance of an independent remuneration expert for purposes of reviewing whether the remuneration of the Board of Managing Directors is appropriate.

## 2.2 Main features of the remuneration system for and amounts of remuneration of the Board of Managing Directors in effect prior to the listing

Prior to the listing, the remuneration system included fixed and variable components. The total remuneration of each member of the Board of Managing Directors is capped (“hard cap”). The fixed component of remuneration was based on the duties and responsibilities of each member of the Board of Managing Directors. In addition to the fixed component, each member of the Board of Managing Directors also received a performance-based bonus, which was calculated based on the following factors:

- operating earnings compared to minimum return on revenue,
- actual working capital compared to budgeted working capital, and
- individual performance factor.

Total remuneration of the entire Board of Managing Directors for 2014 under the remuneration system in effect prior to the listing amounted to EUR 2 m, including EUR 1 m for the fixed component and EUR 0 m for the variable performance-based bonus. As Schaeffler AG’s Board of Managing Directors was not appointed until October 24, 2014, prior year figures are not fully comparable to the figures for 2015. In addition, the members of the Board of Managing Directors received fringe benefits which included the use of a company car for private purposes, insurance benefits, D&O insurance, and retirement benefits.

The previous remuneration system was based on individual contractual arrangements entered into prior to the company’s listing on the capital markets. On the date of the listing, the new remuneration system meeting the requirements for remuneration systems of listed companies became effective retroactively as at January 01, 2015. As a result, remuneration under the previous system is not presented by individual for 2014. Remuneration for all of 2015 based on the remuneration system in effect since the listing is disclosed by individual.

The remuneration system in effect prior to the listing remained applicable to the two members of the Board of Managing Directors who left the company, Kurt Mirlach (left effective December 31, 2015) and Robert Schullan (left effective April 30, 2015), without change in 2015.

## 2.3 Amounts of remuneration of the Board of Managing Directors

The fixed and variable components of remuneration are disclosed below. The following tables show the remuneration granted for and paid in 2015.

### Remuneration and payments for 2015 Klaus Rosenfeld (Chief Executive Officer since October 24, 2014)

No. 061

in € thousands	Remuneration			Payment 2015
	2015	2015 (floor)	2015 (ceiling)	
Fixed remuneration	1,200	1,200	1,200	1,200
Sign-on bonus	1,200	1,200	1,200	600 <sup>1)</sup>
Fringe benefits	27	27	27	27
<b>Total</b>	<b>2,427</b>	<b>2,427</b>	<b>2,427</b>	<b>1,827</b>
One-year variable remuneration – short-term bonus	1,200	0	1,800	953
Multi-year variable remuneration – long-term bonus: PSUP (4 years)	1,031 <sup>2)</sup>	0	2,600	0
<b>Total</b>	<b>4,658</b>	<b>2,427</b>	<b>6,827</b>	<b>2,780</b>
Pension cost	1,240	1,240	1,240	1,240
<b>Total remuneration</b>	<b>5,898</b>	<b>3,667</b>	<b>8,067</b>	<b>4,020</b>

<sup>1)</sup> Represents the payment made in October 2015. The remaining sign-on bonus will be paid in October 2016.

<sup>2)</sup> Fair value at the grant date in accordance with IFRS 2.



**Norbert Indlekofer**  
**(Member of the Board of Managing Directors since October 24, 2014)**

in € thousands	Remuneration			Payment 2015
	2015	2015 (floor)	2015 (ceiling)	
Fixed remuneration	600	600	600	600
Sign-on bonus	600	600	600	300 <sup>1)</sup>
Fringe benefits	27	27	27	27
<b>Total</b>	<b>1,227</b>	<b>1,227</b>	<b>1,227</b>	<b>927</b>
One-year variable remuneration – short-term bonus	900	0	1,350	715
Multi-year variable remuneration – long-term bonus: PSUP (4 years)	753 <sup>2)</sup>	0	1,900	0
<b>Total</b>	<b>2,880</b>	<b>1,227</b>	<b>4,477</b>	<b>1,642</b>
Pension cost	205	205	205	205
<b>Total remuneration</b>	<b>3,085</b>	<b>1,432</b>	<b>4,682</b>	<b>1,847</b>

<sup>1)</sup> Represents the payment made in October 2015. The remaining sign-on bonus will be paid in October 2016.

<sup>2)</sup> Fair value at the grant date in accordance with IFRS 2.

**Prof. Dr. Peter Pleus**  
**(Member of the Board of Managing Directors since October 24, 2014)**

in € thousands	Remuneration			Payment 2015
	2015	2015 (floor)	2015 (ceiling)	
Fixed remuneration	600	600	600	600
Sign-on bonus	600	600	600	300 <sup>1)</sup>
Fringe benefits	41	41	41	41
<b>Total</b>	<b>1,241</b>	<b>1,241</b>	<b>1,241</b>	<b>941</b>
One-year variable remuneration – short-term bonus	900	0	1,350	715
Multi-year variable remuneration – long-term bonus: PSUP (4 years)	753 <sup>2)</sup>	0	1,900	0
<b>Total</b>	<b>2,894</b>	<b>1,241</b>	<b>4,491</b>	<b>1,656</b>
Pension cost	380	380	380	380
<b>Total remuneration</b>	<b>3,274</b>	<b>1,621</b>	<b>4,871</b>	<b>2,036</b>

<sup>1)</sup> Represents the payment made in October 2015. The remaining sign-on bonus will be paid in October 2016.

<sup>2)</sup> Fair value at the grant date in accordance with IFRS 2.

### Dr. Stefan Spindler (Member of the Board of Managing Directors since May 01, 2015)

in € thousands	Remuneration			Payment 2015
	2015	2015 (floor)	2015 (ceiling)	
Fixed remuneration	400	400	400	400
Sign-on bonus	600	600	600	300 <sup>1)</sup>
Fringe benefits	13	13	13	13
<b>Total</b>	<b>1,013</b>	<b>1,013</b>	<b>1,013</b>	<b>713</b>
One-year variable remuneration – short-term bonus	500	0	750	397
Multi-year variable remuneration – long-term bonus: PSUP (4 years)	423 <sup>2)</sup>	0	1,066	0
<b>Total</b>	<b>1,936</b>	<b>1,013</b>	<b>2,829</b>	<b>1,110</b>
Pension cost	164	164	164	164
<b>Total remuneration</b>	<b>2,100</b>	<b>1,177</b>	<b>2,993</b>	<b>1,274</b>

<sup>1)</sup> Represents the payment made in October 2015. The remaining sign-on bonus will be paid in October 2016.

<sup>2)</sup> Fair value at the grant date in accordance with IFRS 2.

### Prof. Dr. Peter Gutzmer (Member of the Board of Managing Directors since October 24, 2014)

in € thousands	Remuneration			Payment 2015
	2015	2015 (floor)	2015 (ceiling)	
Fixed remuneration	600	600	600	600
Sign-on bonus	600	600	600	300 <sup>1)</sup>
Fringe benefits	28	28	28	28
<b>Total</b>	<b>1,228</b>	<b>1,228</b>	<b>1,228</b>	<b>928</b>
One-year variable remuneration – short-term bonus	900	0	1,350	715
Multi-year variable remuneration – long-term bonus: PSUP (4 years)	753 <sup>2)</sup>	0	1,900	0
<b>Total</b>	<b>2,881</b>	<b>1,228</b>	<b>4,478</b>	<b>1,643</b>
Pension cost	273	273	273	273
<b>Total remuneration</b>	<b>3,154</b>	<b>1,501</b>	<b>4,751</b>	<b>1,916</b>

<sup>1)</sup> Represents the payment made in October 2015. The remaining sign-on bonus will be paid in October 2016.

<sup>2)</sup> Fair value at the grant date in accordance with IFRS 2.

**Dr. Ulrich Hauck**  
**(Member of the Board of Managing Directors since April 01, 2015)**

in € thousands	Remuneration			Payment 2015
	2015	2015 (floor)	2015 (ceiling)	
Fixed remuneration	450	450	450	450
Sign-on bonus	600	600	600	300 <sup>1)</sup>
Fringe benefits	20	20	20	20
<b>Total</b>	<b>1,070</b>	<b>1,070</b>	<b>1,070</b>	<b>770</b>
One-year variable remuneration – short-term bonus	563	0	845	447
Multi-year variable remuneration – long-term bonus: PSUP (4 years)	476 <sup>2)</sup>	0	1,200	0
<b>Total</b>	<b>2,109</b>	<b>1,070</b>	<b>3,115</b>	<b>1,217</b>
Pension cost	337	337	337	337
<b>Total remuneration</b>	<b>2,446</b>	<b>1,407</b>	<b>3,452</b>	<b>1,554</b>

<sup>1)</sup> Represents the payment made in October 2015. The remaining sign-on bonus will be paid in October 2016.

<sup>2)</sup> Fair value at the grant date in accordance with IFRS 2.

**Oliver Jung**  
**(Member of the Board of Managing Directors since October 24, 2014)**

in € thousands	Remuneration			Payment 2015
	2015	2015 (floor)	2015 (ceiling)	
Fixed remuneration	600	600	600	600
Sign-on bonus	600	600	600	300 <sup>1)</sup>
Fringe benefits	28	28	28	28
<b>Total</b>	<b>1,228</b>	<b>1,228</b>	<b>1,228</b>	<b>928</b>
One-year variable remuneration – short-term bonus	900	0	1,350	715
Multi-year variable remuneration – long-term bonus: PSUP (4 years)	753 <sup>2)</sup>	0	1,900	0
<b>Total</b>	<b>2,881</b>	<b>1,228</b>	<b>4,478</b>	<b>1,643</b>
Pension cost	288	288	288	288
<b>Total remuneration</b>	<b>3,169</b>	<b>1,516</b>	<b>4,766</b>	<b>1,931</b>

<sup>1)</sup> Represents the payment made in October 2015. The remaining sign-on bonus will be paid in October 2016.

<sup>2)</sup> Fair value at the grant date in accordance with IFRS 2.

**Kurt Mirlach**  
**(Member of the Board of Managing Directors from October 24, 2014**  
**until December 31, 2015)**

in € thousands	Remuneration			Payment 2015
	2015	2015 (floor)	2015 (ceiling)	
Fixed remuneration	450	450	450	450
Sign-on bonus	-	-	-	-
Fringe benefits	22	22	22	22
<b>Total</b>	<b>472</b>	<b>472</b>	<b>472</b>	<b>472</b>
One-year variable remuneration – short-term bonus	960	0	1,550	1,003
Multi-year variable remuneration – long-term bonus: PSUP (4 years)	-	-	-	-
<b>Total</b>	<b>1,432</b>	<b>472</b>	<b>2,022</b>	<b>1,475</b>
Pension cost	266	266	266	266
<b>Total remuneration</b>	<b>1,698</b>	<b>738</b>	<b>2,288</b>	<b>1,741</b>

**Robert Schullan**  
**(Member of the Board of Managing Directors from October 24, 2014**  
**until April 30, 2015)**

in € thousands	Remuneration			Payment 2015
	2015	2015 (floor)	2015 (ceiling)	
Fixed remuneration	142	142	142	142
Sign-on bonus	-	-	-	-
Fringe benefits	9	9	9	9
<b>Total</b>	<b>151</b>	<b>151</b>	<b>151</b>	<b>151</b>
One-year variable remuneration – short-term bonus	572	0	1,557	579
Multi-year variable remuneration – long-term bonus: PSUP (4 years)	-	-	-	-
<b>Total</b>	<b>723</b>	<b>151</b>	<b>1,708</b>	<b>730</b>
Pension cost	130	130	130	130
<b>Total remuneration</b>	<b>853</b>	<b>281</b>	<b>1,838</b>	<b>860</b>

The total remuneration for 2015 is broken down by individual and by its various components in accordance with section 285 No. 9a HGB and section 314 (1) No. 6a HGB below.

### Total remuneration (HGB) for 2015 by individual

No. 062

in € thousands	Remuneration components			
	fixed	variable short-term	variable long-term <sup>1)</sup>	Total remuneration
Klaus Rosenfeld (CEO)	2,427	953	1,031	4,411
Norbert Indlekofer	1,227	715	753	2,695
Prof. Dr. Peter Pleus	1,241	715	753	2,709
Dr. Stefan Spindler (since May 01, 2015)	1,013	397	423	1,833
Prof. Dr. Peter Gutzmer	1,228	715	753	2,696
Dr. Ulrich Hauck (since April 01, 2015)	1,070	447	476	1,993
Oliver Jung	1,228	715	753	2,696
<b>Former members of the Board of Managing Directors</b>				
Kurt Mirlach (until December 31, 2015)	472	1,003	0	1,475
Robert Schullan (until April 30, 2015)	151	579	0	730
<b>Total</b>	<b>10,057</b>	<b>6,239</b>	<b>4,942</b>	<b>21,238</b>

<sup>1)</sup> Share-based payment in the form of the PSUP.

The expenses resulting from the PSUP for 2015 are broken down by individual in accordance with section 314 (1) No. 6a Sentence 8 HGB in conjunction with IFRS 2.51a below.

### PSUP expenses in 2015

No. 063

in € thousands	Expenses (IFRS)
Klaus Rosenfeld (CEO)	92
Norbert Indlekofer	176
Prof. Dr. Peter Pleus	176
Dr. Stefan Spindler (since May 01, 2015)	38
Prof. Dr. Peter Gutzmer	67
Dr. Ulrich Hauck (since April 01, 2015)	42
Oliver Jung	67
<b>Former members of the Board of Managing Directors</b>	
Kurt Mirlach (until December 31, 2015)	-
Robert Schullan (until April 30, 2015)	-
<b>Total</b>	<b>658</b>

## 2.4 Remuneration of the Supervisory Board

The remuneration of the Supervisory Board includes the disclosures required by German commercial law and is consistent with the recommendations of the GCGC. The remuneration of the Supervisory Board was set in a resolution passed by the general meeting on December 01, 2014.

The members of the Supervisory Board of Schaeffler AG receive fixed remuneration of EUR 50,000 per year. The Chairman of the Supervisory Board receives twice this amount, his Deputies 1.5 times this amount. In addition, membership on committees is compensated as follows:

- Executive committee; committee remuneration of EUR 20,000 for each ordinary member, twice this amount for the chairman.
- Audit committee; committee remuneration for each ordinary member of EUR 20,000, twice this amount for the chairman.

Where a member of the Supervisory Board chairs several committees or chairs both the Supervisory Board and one or more committees, no remuneration is paid for the additional chairmanship. Remuneration is pro-rated for changes in the Supervisory Board or its committees.

Remuneration for committee membership for any one financial year is conditional on the relevant committee actually having met to fulfill its responsibilities during the period.

In addition, each member of the Supervisory Board receives an attendance fee of EUR 1,500 for each meeting of the Supervisory Board or its committees her or she attends in person.

Members of the Supervisory Board are reimbursed for expenses incurred in connection with the performance of their duties and for any value-added tax on their remuneration.

The company has obtained directors' and officers' liability insurance (D&O insurance) for all members of the Supervisory Board; the policy's deductible provision is in accordance with the AktG and the GCGC.

No advances or loans were granted to members of the Supervisory Board in 2015. The following table summarizes the amount of remuneration of each member of the Supervisory Board.

Supervisory Board remuneration for 2015 <sup>1)</sup>

No. 064

in € thousands	Fixed remuneration	Remuneration for committee membership	Attendance fees	Total remuneration
Bänsch, Jürgen (until November 19, 2015) <sup>2)</sup>	53	21	16	90
Bullinger, Prof. Dr. Hans-Jörg	60		7	67
Engelmann, Dr. Holger	60		7	67
Gottschalk, Prof. Dr. Bernd	60		7	67
Lenhard, Norbert <sup>2)</sup>	60	24	16	100
Luther, Dr. Siegfried	60	48	11	119
Mittag, Dr. Reinold <sup>2)</sup>	60	24	18	102
Mölkner, Thomas (until November 19, 2015) <sup>2)</sup>	53		9	62
Münch, Yvonne (since November 19, 2015) <sup>2)</sup>	7		2	9
Resch, Barbara (since November 19, 2015) <sup>2)</sup>	7	1	4	12
Schaeffler, Georg F. W.	119	48	23	190
Schaeffler-Thumann, Maria-Elisabeth	89	24	12	125
Schmidt, Stefanie <sup>2)</sup>	60		7	67
Spindler, Dirk	60		9	69
Stalker, Robin	60	24	16	100
Stolz, Jürgen <sup>2)</sup>	60		9	69
Vicari, Salvatore <sup>2)</sup>	60	24	18	102
Wechsler, Jürgen <sup>2)</sup>	89	24	16	129
Wiesheu, Dr. Otto	60		9	69
Wolf, Prof. KR Ing. Siegfried	60	24	9	93
Worrich, Jürgen <sup>2)</sup>	60	24	18	102
Zhang, Prof. Dr.-Ing. Tong	60		5	65
<b>Total</b>	<b>1,317</b>	<b>310</b>	<b>248</b>	<b>1,875</b>

<sup>1)</sup> All amounts shown include value-added tax on remuneration where applicable. The positions held by the Supervisory Board members are listed in section 5 "Governing bodies of the company".

<sup>2)</sup> These employee representatives have declared that their board remuneration is transferred to the Hans Böckler Foundation in accordance with the guidelines issued by the German Federation of Trade Unions.

Members of the Supervisory Board have not received any compensation for personally rendered services, especially consulting and agency services.

## 3. Governing bodies of the company

### 3.1 Supervisory Board

The Supervisory Board consists of twenty members. Ten of these members are appointed by a resolution of the annual general meeting, and ten members are elected by the employees in accordance with the requirements of the German Co-Determination Act. The term of office of the shareholder representatives on the Supervisory Board ends at the conclusion of the annual general meeting 2019. The term of office of the employee representatives ends at the conclusion of the annual general meeting 2020.

#### **Georg F. W. Schaeffler**

Shareholder of INA-Holding Schaeffler GmbH & Co. KG

Chairman of the Supervisory Board of Schaeffler AG

Appointed on December 01, 2014

Chairman of the mediation, executive, and nomination committees and member of the audit committee

Seats on other supervisory and similar boards:

Member of the supervisory board of Continental AG, Hanover

#### **Maria-Elisabeth Schaeffler-Thumann**

Shareholder of INA-Holding Schaeffler GmbH & Co. KG

Deputy Chairperson of the Supervisory Board of Schaeffler AG

Appointed on December 01, 2014

Member of the mediation, executive, and nomination committees

Seats on other supervisory and similar boards:

Member of the supervisory board of Continental AG, Hanover

#### **Jürgen Wechsler\***

Regional Director of IG Metall Bavaria

Deputy Chairman of the Supervisory Board of Schaeffler AG and member of the mediation and executive committees

Appointed on November 19, 2015

Seats on other supervisory and similar boards:

Member of the supervisory board of BMW AG, Munich

Deputy chairman of the Supervisory Board of Siemens Healthcare GmbH, Munich (since June 29, 2015)

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\* Employee representative on the Supervisory Board



**Prof. Dr. Hans-Jörg Bullinger**

Senator of Fraunhofer-Gesellschaft zur Förderung angew. Forschung e. V.

Appointed on December 01, 2014

Seats on other supervisory and similar boards:

Chairman of the supervisory board of ARRI AG, Munich

Member of the supervisory board of Bauerfeind AG, Zeulenroda-Triebes

Chairman of the supervisory board of TÜV SÜD AG, Munich

Deputy chairman of the supervisory board of WILO SE, Dortmund

**Dr. Holger Engelmann**

Chairman of the Management Board of Webasto SE

Appointed on December 01, 2014

Member of the nomination committee

Seats on other supervisory and similar boards:

Member of the supervisory board of Webasto Roof Systems China Ltd., Hong Kong, China

Chairman of the supervisory board of Webasto Thermo & Comfort SE, Gilching

**Prof. Dr. Bernd Gottschalk**

Managing Partner of AutoValue GmbH

Appointed on December 01, 2014

Member of the nomination committee

Seats on other supervisory and similar boards:

Member of the supervisory board of JOST-Werke Deutschland GmbH, Neu-Isenburg

Member of the advisory board of peiker acoustic GmbH & Co. KG, Friedrichsdorf

Member of the supervisory board of Plastic Omnium SA, Levallois-Perret, France

Member of the supervisory board of Voith GmbH, Heidenheim (until September 30, 2015)

Chairman of the advisory board of Woco Industrietechnik GmbH, Bad Soden-Salmünster

**Norbert Lenhard\***

Chairman of the central Works Council Schaeffler Technologies AG & Co. KG;

Chairman of the Works Council at Schweinfurt plant

Appointed on November 19, 2015

Member of the mediation and executive committees

**Dr. Siegfried Luther**

Management Consultant

Appointed on December 01, 2014

Chairman of the audit committee

Seats on other supervisory and similar boards:

Member of the supervisory board of Evonik Industries AG, Essen

Member of the board of directors of Sparkasse Gütersloh, Gütersloh

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\* Employee representative on the Supervisory Board

**Dr. Reinold Mittag\***

Trade Union Secretary of IG Metall

Appointed on November 19, 2015

Member of the audit committee

**Yvonne Münch\***

Manager Plant Purchase and Logistics

Appointed on November 19, 2015

**Barbara Resch\***

Second Commissioner of IG Metall Schweinfurt

Appointed on November 19, 2015

Member of the executive committee

**Stefanie Schmidt\***

Chairperson of the Works Council at Wuppertal plant

Appointed on November 19, 2015

**Dirk Spindler\***

Senior Vice President Research & Development and Application Engineering of  
Schaeffler Technologies AG & Co. KG

Appointed on November 19, 2015

**Robin Stalker**

Executive Board Member for adidas AG, responsible for Finance

Appointed on December 01, 2014

Member of the audit committee

**Jürgen Stolz\***

Chairman of the Works Council at Bühl plant

Appointed on November 19, 2015

**Salvatore Vicari\***

Chairman of the Works Council at Homburg/Saar plant

Appointed on November 19, 2015

Member of the audit committee

**Dr. Otto Wiesheu**

Lawyer

Appointed on December 01, 2014

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\* Employee representative on the Supervisory Board

**Prof. KR Ing. Siegfried Wolf**

Chairman of the Board of Directors of Russian Machines LLC

Appointed on December 01, 2014

Member of the executive committee

Seats on other supervisory and similar boards:

Member of the supervisory board of Banque Baring Brothers Sturdza SA, Geneva, Switzerland

Member of the supervisory board of Continental AG, Hanover

Chairman of the supervisory board of GAZ Group, Nizhny Novgorod, Russia

Chairman of the supervisory board of Glavstroy OJSC, Moscow, Russia (until September 15, 2015)

Member of the supervisory board of Miba AG, Laakirchen, Austria (since June 25, 2015)

Chairman of the supervisory board of Österreichische Industrieholding AG, Vienna, Austria (until March 20, 2015)

Chairman of the supervisory board of SBERBANK Europe AG, Vienna, Austria

Member of the supervisory board of STRABAG SE, Vienna, Austria (until June 12, 2015)

Member of the supervisory board of Transtroy Corporation, Moscow, Russia (until September 15, 2015)

**Jürgen Worrich\***

Chairman of the European Schaeffler Works Council; Member of the Works Council at Herzogenaurach plant

Appointed on November 19, 2015

Member of the audit committee

**Prof. Dr.-Ing. Tong Zhang**

Director Clean Energy Automotive Engineering Center at Tongji University in Shanghai, China

Appointed on December 01, 2014

The following members left the Supervisory Board in 2015:

**Jürgen Bänsch\***

Chairman of the Central German Works Council, Schaeffler Group; Chairman of the Works Council at Herzogenaurach plant

Member of the Supervisory Board until November 19, 2015

**Thomas Mölkner\***

Chairman of the Central German Works Council, Schaeffler Group

Member of the Supervisory Board until November 19, 2015

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\* Employee representative on the Supervisory Board

## 3.2 Supervisory Board committees

### **Mediation committee**

Georg F. W. Schaeffler (chairman), Maria-Elisabeth Schaeffler-Thumann, Norbert Lenhard, and Jürgen Wechsler

### **Executive committee**

Georg F. W. Schaeffler (chairman), Norbert Lenhard, Barbara Resch, Maria-Elisabeth Schaeffler-Thumann, Jürgen Wechsler, and Prof. KR Ing. Siegfried Wolf

### **Audit committee**

Dr. Siegfried Luther (chairman), Dr. Reinold Mittag, Georg F. W. Schaeffler, Robin Stalker, Salvatore Vicari, and Jürgen Worrich

### **Nomination committee**

Georg F. W. Schaeffler (chairman), Maria-Elisabeth Schaeffler-Thumann, Dr. Holger Engelmann, and Prof. Dr. Bernd Gottschalk

## 3.3 Board of Managing Directors

The Schaeffler Group is managed by the Board of Managing Directors of Schaeffler AG. The Board of Managing Directors currently has eight members: the Chairman of the Board of Managing Directors (CEO), the CEOs of the two divisions Automotive and Industrial, and the Managing Directors responsible for the functions (1) Technology, (2) Operations, (3) Finance, and (4) Human Resources. Together, the Board of Managing Directors and the Regional CEOs represent the Schaeffler Group's Executive Board.

### **Klaus Rosenfeld**

Chief Executive Officer

Responsible for Quality; MOVE, Communications, Marketing & Investor Relations; Legal; Internal Audit; Corporate Development & Strategy; Compliance & Corporate Security; Corporate Real Estate

Chief Executive Officer since October 24, 2014; appointed until June 30, 2019

Seats on supervisory and similar boards:

Member of the supervisory board of Continental AG, Hanover

Member of the supervisory board of FAG Bearings India Ltd., Mumbai, India (since February 11, 2015)

### **Prof. Dr.-Ing. Peter Gutzmer**

Deputy Chief Executive Officer and Chief Technology Officer

Responsible for R&D Strategy, Processes & Resources; Corporate Innovation; R&D Expertise & Service; Protection of Industrial Property; Surface Technology; Information Technology; Digitalization Coordination Office

Member of the Board of Managing Directors since October 24, 2014; appointed until December 31, 2019

Seats on supervisory and similar boards:

Member of the supervisory board of Continental AG, Hanover

### **Dr. Ulrich Hauck** (since April 01, 2015)

Chief Financial Officer

Responsible for Finance Strategy, Processes & Infrastructure; Corporate Accounting; Corporate Controlling; Divisional Controlling Automotive and Industrial divisions; Corporate Treasury; Corporate Taxes; Corporate Insurance

Member of the Board of Managing Directors since April 01, 2015; appointed until March 31, 2018

Seats on supervisory and similar boards:

Member of the supervisory board of Bayer Business Services GmbH, Leverkusen (until February 28, 2015)

Member of the supervisory board of Bayer-Pensionskasse VVaG, Leverkusen (until February 28, 2015)

Member of the advisory board of Bayer Pension Trust e.V., Leverkusen (until February 28, 2015)

Member of the board of directors of Euro Services Bayer S.L., Barcelona, Spain (until February 28, 2015)

Member of the supervisory board of mutares AG, Munich

**Norbert Indlekofer**

CEO Automotive

Responsible for Transmission Systems and Automotive Aftermarket business divisions;  
Research & Development Automotive division

Member of the Board of Managing Directors since October 24, 2014;  
appointed until December 31, 2016

Seats on supervisory and similar boards:

Member of the supervisory board of Gienanth GmbH, Eisenberg

**Oliver Jung**

Chief Operating Officer

Responsible for Operations Strategy & Processes; Production Technology; Special Machinery;  
Tool & Prototype Management; Industrial Engineering; Bearing & Components Technologies;  
Logistics; Purchasing

Member of the Board of Managing Directors since October 24, 2014;  
appointed until September 30, 2018

Seats on supervisory and similar boards:

Member of the supervisory board of SupplyOn AG, Munich

**Prof. Dr. Peter Pleus**

CEO Automotive

Responsible for Engine Systems and Chassis Systems business divisions;  
Global Key Account Management Automotive division; Business Development Automotive

Member of the Board of Managing Directors since October 24, 2014;  
appointed until December 31, 2016

Seats on supervisory and similar boards:

Member of the supervisory board of IAV GmbH, Berlin

**Corinna Schittenhelm** (since January 01, 2016)

Chief Human Resources Officer

Responsible for Human Resources Strategy, Processes & Infrastructure;  
General Policy & Remuneration Policy; Administration & Payroll; Human Resources Automotive;  
Human Resources Industrial; Human Resources Corporate Functions;  
Human Resources Development; Environment, Occupational Health & Safety

Member of the Board of Managing Directors since January 01, 2016;  
appointed until December 31, 2018

Seats on supervisory and similar boards:

Member of the supervisory board of OSRAM Opto Semiconductors GmbH (until December 31, 2015)

**Dr. Stefan Spindler** (since May 01, 2015)

CEO Industrial

Responsible for Strategic Planning Sectors & Customers; Global Sales Industrial;  
Research & Development and Application Development; Operations and Supply Chain Management;  
“CORE” Program

Member of the Board of Managing Directors since May 01, 2015; appointed until April 30, 2018

Seats on supervisory and similar boards:

Deputy Chairman of the supervisory board of Schaeffler Austria GmbH, Berndorf- St. Veit, Austria  
(since June 09, 2015)

The following members left the Board of Managing Directors in 2015:

**Kurt Mirlach** (until December 31, 2015)

Chief Human Resources Officer

Responsible for Human Resources Strategy, Processes & Infrastructure;  
General Policy & Remuneration Policy; Administration & Payroll; Human Resources Automotive;  
Human Resources Industrial; Human Resources Corporate Functions;  
Human Resources Development; Environment, Occupational Health & Safety

Member of the Board of Managing Directors from October 24, 2014 until December 31, 2015

**Robert Schullan** (until April 30, 2015)

CEO Industrial

Responsible for Business Development Industrial; Industrial Applications business division;  
Industrial Aftermarket business division; Bearing Technologies;  
Research & Development Industrial

Member of the Board of Managing Directors from October 24, 2014 until April 30, 2015

Seats on supervisory and similar boards:

Member of the supervisory board of HAWE Hydraulik SE, Munich (since January 01, 2015)





**SCHAEFFLER**

Financial Statements  
as at December 31, 2015

Schaeffler AG

Mobility for tomorrow

**Technological Expertise and  
Systems Know-how**



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## Financial statements

1. Balance sheet
2. Income statement
3. Notes to the financial statements

## Balance sheet

### Balance sheet of Schaeffler AG

in €	12/31/2015	12/31/2014
<b>ASSETS</b>		
<b>Intangible assets</b>	<b>3.788,00</b>	<b>17.937,00</b>
<b>Property, plant and equipment</b>	<b>144.711,00</b>	<b>137.906,00</b>
Shares in affiliated companies	14.108.811.259,16	14.108.811.259,16
Loans receivable from affiliated companies	1.797.562.175,80	1.723.724.323,79
<b>Long-term financial assets</b>	<b>15.906.373.434,96</b>	<b>15.832.535.582,95</b>
<b>Fixed assets</b>	<b>15.906.521.933,96</b>	<b>15.832.691.425,95</b>
Receivables from affiliated companies	11.099.877.765,37	10.744.397.866,25
Receivables from entities to which the company is linked by equity ownership	8.179,34	0,00
Other assets	178.207.423,19	123.155.468,04
<b>Receivables and other assets</b>	<b>11.278.093.367,90</b>	<b>10.867.553.334,29</b>
<b>Cash at banks</b>	<b>449.047.348,64</b>	<b>296.897.827,17</b>
<b>Current assets</b>	<b>11.727.140.716,54</b>	<b>11.164.451.161,46</b>
<b>Prepaid expenses and deferred charges</b>	<b>208.362,71</b>	<b>139.249,99</b>
<b>Excess of plan assets over post-employment benefit liability</b>	<b>6.186.680,13</b>	<b>7.002.267,00</b>
<b>Total shareholders' equity and liabilities</b>	<b>27.640.057.693,34</b>	<b>27.004.284.104,40</b>

in €	12/31/2015	12/31/2014
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
Share capital	666.000.000,00	600.000.000,00
Capital reserves	2.359.000.000,00	1.600.000.000,00
Retained earnings	3.670.775.184,50	3.345.515.818,71
<b>Shareholders' equity</b>	<b>6.695.775.184,50</b>	<b>5.545.515.818,71</b>
<b>Special reserve</b>	<b>10.499.813,00</b>	<b>12.599.813,00</b>
Provisions for pensions and similar obligations	22.838.769,16	16.824.559,63
Tax provisions	<b>78.971.913,00</b>	124.943.669,90
Other provisions	<b>142.121.914,37</b>	176.009.848,66
<b>Provisions</b>	<b>243.932.596,53</b>	<b>317.778.078,19</b>
Bank debt	654.151.873,16	1.821.688.415,64
Trade payables	1.271.373,95	451.708,72
Amounts payable to affiliated companies	19.604.157.234,86	18.805.577.139,65
Other liabilities	50.688.711,85	30.275.324,31
-- including taxes of EUR1,416,347.02 (prior year: EUR 937,295.78)		
<b>Liabilities</b>	<b>20.310.269.193,82</b>	<b>20.657.992.588,32</b>
<b>Deferred income</b>	<b>66.968.571,63</b>	<b>221.623.644,74</b>
<b>Deferred tax liabilities</b>	<b>312.612.333,86</b>	<b>248.774.161,44</b>
<b>Total shareholders' equity and liabilities</b>	<b>27.640.057.693,34</b>	<b>27.004.284.104,40</b>



# Income statement

## Income statement of Schaeffler AG

in €	2015	2014
Income from equity investments	1.118.829.976,36	1.115.625.207,00
-- including EUR 1,118,829,976.36 (prior year: EUR 1,115,625,207.00) from affiliated companies		
Income from other securities and long-term loans receivable	72.601.132,59	3.844.188,71
-- including EUR 72,601,132.59 (prior year: EUR 3,844,188.71) from affiliated companies		
Other interest and similar income	130.402.584,10	286.825.685,20
-- including EUR 43,683,791.04 (prior year: EUR 17,072,515.28) from affiliated companies		
Interest and similar expenses	-562.396.504,66	-695.063.437,39
-- including EUR 449,552,476.54 (prior year: EUR 426,624,867.13) to affiliated companies		
General and administrative expenses	-97.437.444,84	-27.905.968,07
Other operating income	798.886.898,74	347.134.457,33
Other operating expenses	-763.823.139,06	-636.613.064,24
<b>Result from ordinary activities</b>	<b>697.063.503,23</b>	<b>393.847.068,54</b>
Extraordinary income	0,00	53.900.000,00
<b>Extraordinary result</b>	<b>0,00</b>	<b>53.900.000,00</b>
Income taxes	-121.628.866,44	-57.811.014,90
-- including deferred tax expense of EUR 63,838,172.42 (prior year: benefit of EUR 83,168,821.04 )		
Other taxes	-175.271,00	-279,00
<b>Net income for the year</b>	<b>575.259.365,79</b>	<b>389.935.774,64</b>
Retained earnings brought forward	3.095.515.818,71	2.955.580.044,07
<b>Retained earnings</b>	<b>3.670.775.184,50</b>	<b>3.345.515.818,71</b>

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# Notes to the financial statements

1. General information on the financial statements
2. Accounting policies
3. Notes to the balance sheet
4. Notes to the income statement
5. Other information



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## 1. General information on the financial statements

Schaeffler AG, Herzogenaurach, is a corporation domiciled in Germany with its registered office located at Industriestraße 1 – 3, 91074 Herzogenaurach.

These financial statements were prepared in accordance with sections 242 et seq. and 264 et seq. of the German Commercial Code (“Handelsgesetzbuch” – HGB) and the supplementary provisions of the German Stock Companies Act (“Aktiengesetz”).

The company is subject to the requirements for large corporations as defined in section 267 (3) HGB in connection with section 264 d HGB.

### Comparability with prior year financial statements:

Schaeffler AG has been managing the Schaeffler Group’s cash pool since October 01, 2014.

On October 24, 2014 (date entered in the Commercial Register), INA Beteiligungsgesellschaft mit beschränkter Haftung was changed to a stock corporation (“Aktiengesellschaft”) and renamed Schaeffler AG. Also on that date, all of the company’s functions (CEO functions, Technology, Operations, Finance, and Human Resources) were transferred from Schaeffler Verwaltung Zwei GmbH (until October 22, 2014: Schaeffler AG) to the company.

On September 08, 2015, the extraordinary general meeting of Schaeffler AG passed a resolution to increase its share capital by EUR 66 m by issuing 66 million common non-voting no-par-value bearer shares. Schaeffler AG’s common non-voting shares were listed on the Frankfurt Stock Exchange on October 09, 2015. The placement price for the shares offered in the listing was set at EUR 12.50 per share. Schaeffler AG received gross proceeds of EUR 825 m from the capital increase, which it used to partially repay its bank debt. This has reduced the company’s future interest expense. The proceeds of the listing have helped improve the company’s equity ratio and reduce its debt to EBITDA ratio.

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## 2. Accounting policies

Details of the company's accounting policies are as follows:

**Intangible assets** are recognized at acquisition cost or, where there is a lasting impairment, at their lower fair value. Intangible assets with a definite useful life are amortized over their expected useful life.

**Property, plant and equipment** is recognized at acquisition or manufacturing cost and depreciated over its expected useful life using either the straight-line or the declining balance method.

Depreciation is determined based on normal useful lives. Write-downs are made when an impairment has occurred that is not reflected in regular depreciation and is expected to be permanent.

Write-downs are reversed when the cause of the write-down no longer exists.

**Long-term financial assets** are recognized at acquisition cost or, where there is a lasting impairment, at their lower fair value.

Write-downs to the lower fair value are recognized when the impairment is expected to be permanent. Write-downs are reversed to the extent the cause for the write-down no longer exists.

**Receivables** are recognized at face value.

**Other assets** are recognized at face or fair value, settlement amount, or present value.

**Derivative financial instruments** in the form of cross-currency swaps and forward exchange contracts are measured separately. Their book value is capped at acquisition cost. Negative market values are reflected in provisions for pending losses. Fair value is measured using discounted cash flow valuation models and the exchange rates in effect at the end of the reporting period as well as risk-adjusted interest and discount rates appropriate to the instruments' terms. Embedded derivatives are measured using a Hull-White model. Key inputs to this model include interest rates, volatilities and credit default swap rates.

Some of the cross-currency swaps entered into to hedge currency risk related to financing arrangements are accounted for using hedge accounting together with the underlying amounts payable to affiliated companies. The company uses the net hedge presentation method of hedge accounting, which involves fixing the amounts of the separate components as at the date hedge accounting commences. Subsequent effective changes in their value with respect to the hedged risk are not recognized.

**Cash at banks** is measured at face value.

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**Prepaid assets and deferred charges** are recognized at the amount that is reasonably attributable to periods subsequent to the balance sheet date.

**Deferred taxes** are recognized on temporary differences between amounts recognized for financial reporting and for tax purposes for assets, liabilities, prepaid assets and deferred charges, as well as deferred income. Any resulting net future tax charge is recognized as a net deferred tax liability in the balance sheet.

**Provisions for pensions and similar obligations** are determined by actuarial calculations using the projected unit credit method (PUC) based on the "Heubeck-Richttafeln 2005 G" mortality tables. The valuation of pension provisions reflects future annual salary increases of 3.25 %, pension increases of 1.0 – 1.75 %, and an employee turnover rate of 2.1 %. The forecasted interest rate used to discount pension obligations as at December 31, 2015 amounts to 3.89 %, which is the forecast of the average market interest rate for an assumed term of 15 years determined and published by the German Central Bank ("Deutsche Bundesbank").

**Tax provisions** reflect all identifiable risks and uncertain liabilities and are recognized at the amount expected to be payable based on reasonable business judgment. Provisions due in more than one year are discounted at the average of the previous seven years' market interest rate appropriate to their term to maturity. Provisions due in less than one year are not discounted.

**Other provisions** reflect all identifiable risks and uncertain liabilities. These provisions are recognized at the amount required to settle the expected expenditures related to uncertain liabilities as determined using reasonable business judgment. Future increases in prices and costs are reflected in the calculation to the extent sufficient objective evidence of their occurrence exists. Provisions due in more than one year are discounted at the average of the previous seven years' market interest rate appropriate to their term to maturity using the present value method. Provisions due in less than one year are not discounted.

Schaeffler AG's Performance Share Unit Plan (PSUP) is accounted for as a cash-settled share-based payment plan. The company recognizes a provision in the amount of the fair value of the payment obligation attributable to the period up to the reporting date. The liability is remeasured at the end of each reporting period from the grant date until settlement. The fair value per Performance Share Unit (PSU) is determined using generally accepted financial valuation models. The fair value is recognized as personnel expense over the relevant vesting period and presented under administrative expenses.

**Bank debt, trade payables, amounts payable to affiliated companies, and other liabilities** are recognized at their settlement amount.

**Deferred income** is recognized at the amount that is reasonably attributable to periods subsequent to the balance sheet date.

#### **Foreign currency translation**

Receivables and liabilities in foreign currency are recognized at the exchange rate applicable at the time of the transaction, and re-translated at the mean spot exchange rate on the balance sheet date. Gains are only recognized to the extent they relate to receivables and liabilities due in up to one year. Foreign exchange losses on hedging instruments are recognized in appropriate provisions for expected losses.

Cash at banks in foreign currency is translated at the mean spot exchange rate applicable on the balance sheet.

## 3. Notes to the balance sheet

### 3.1 Fixed assets

#### Summary of changes in fixed assets and information on shareholdings

Please refer to the separate appendix to these notes for the summary of changes in fixed assets and information on the company's shareholdings.

### 3.2 Receivables and other assets

in € thousands	Due in up to one year	Due in between 1 and 5 years	12/31/2015
			Due in more than 5 years
Receivables from affiliated companies	11.099.878	0	0
<i>including short-term loans of</i>	7.698.542	0	0
<i>including other financial receivables of</i>	376.800	0	0
<i>including other receivables of</i>	3.024.536	0	0
Receivables from entities to which the company is linked by equity ownership	8	0	0
Other assets	78.847	36.115	63.245

in € thousands	Due in up to one year	Due in between 1 and 5 years	12/31/2014
			Due in more than 5 years
Receivables from affiliated companies	10.744.398	0	0
<i>including short-term loans of</i>	8.291.372	0	0
<i>including other financial receivables of</i>	529.850	0	0
<i>including other receivables of</i>	1.923.176	0	0
Receivables from entities to which the company is linked by equity ownership	0	0	0
Other assets	13.802	109.353	0

Other receivables largely consist of Schaeffler AG's claim to the net income of Schaeffler Technologies AG & Co. KG of EUR 2,999,784 thousand (prior year: EUR 1,880,954 thousand).

Receivables from affiliated companies include receivables from shareholders of EUR 1,817 thousand (prior year: EUR 270,993 thousand).

Other assets include the positive initial value of cross-currency swaps used to hedge currency risk of EUR 63,245 thousand (prior year: EUR 0 thousand). Since these cross-currency swaps are subject to hedge accounting under the net hedge presentation method, they have not been written down to their lower fair value. The fair value of the proportional nominal amount of EUR 305,460 thousand (prior year: EUR 0 thousand) is EUR 61,410 thousand (prior year: EUR 0 thousand).

Derivatives embedded in bank loans are accounted for separately and included in other assets at an amount of EUR 36,115 thousand (prior year: EUR 109,353 thousand). Their fair value is EUR 60,988 thousand (prior year: EUR 151,813 thousand).

### 3.3 Excess of plan assets over post-employment benefit liability

The company holds assets to fund its obligations under pension commitments and similar long-term obligations. The exclusive purpose of these assets is settling pension obligations and similar long-term obligations and they are protected from access by other creditors. The assets were offset against the related obligations in accordance with section 246 (2)(2) HGB during the year, and consist mainly of reimbursement insurance policies and units of equity, fixed income, and money market funds. The fair value shown in the table below for assets that are interests in funds was derived from market prices of the funds' assets as at the balance sheet date.

in € thousands	12/31/2015	12/31/2014
Settlement amount of pensions and similar obligations	21.147	13.895
Fair value of plan assets offset	27.334	20.897
<b>Net amount of pensions and similar obligations</b>	<b>6.187</b>	<b>7.002</b>
<b>Acquisition cost of plan assets offset</b>	<b>23.760</b>	<b>20.852</b>
	<b>2015</b>	<b>2014</b>
Interest income on plan assets offset	598	178
Interest expense on pensions and similar obligations	5.876	2.682
<b>Net interest expense</b>	<b>-5.278</b>	<b>-2.504</b>

### 3.4 Shareholders' equity

#### Share capital

Schaeffler AG's share capital of EUR 600 m, previously divided into 60 million registered no-par-value shares, was re-divided. Each no-par-value share representing an interest in share capital of EUR 10.00 was replaced by 10 no-par-value shares representing an interest in share capital of EUR 1.00 (10-for-1 share split). Thus, share capital was re-divided into 600 million registered no-par-value shares.

The 10 million (100 million following the share split) common shares held by Schaeffler Verwaltungen GmbH were converted to common non-voting no-par-value bearer shares. The common non-voting shares carry a preferential right to profits consisting of a preferred dividend of EUR 0.01 per common non-voting share.

By a resolution passed on September 08, 2015, Schaeffler AG increased its share capital by EUR 66 m from EUR 600 m to EUR 666 m by issuing 66 million new common non-voting no-par-value bearer shares, each representing an interest in share capital of EUR 1.00, in return for cash. The common non-voting shares carry dividend rights from January 01, 2015. The common non-voting shares carry a preferential right to profits consisting of a preferred dividend of EUR 0.01 per common non-voting share. The subscription rights of Schaeffler Verwaltungen GmbH and Schaeffler Verwaltung Zwei GmbH were excluded.

Schaeffler AG's share capital ("Grundkapital") amounts to EUR 666 m at the balance sheet date and is divided into 500 million registered no-par-value shares and 166 million common non-voting bearer shares.

#### Capital reserves

EUR 759 m of the gross proceeds of EUR 825 m from Schaeffler AG's capital increase was added to capital reserves.

#### Retained earnings

In 2015, a dividend of EUR 250 m was paid to Schaeffler Verwaltung Zwei GmbH from retained earnings, and the remaining EUR 3,096 m was carried forward. The company's net income for the year of EUR 575 m was added to retained earnings.

For 2015, a dividend of EUR 228 m and a special dividend of EUR 100 m will be proposed to the Schaeffler AG annual general meeting.

#### 3.5 Special reserve

When Schaeffler AG assumed the functions of the Board of Managing Directors from Schaeffler Verwaltung Zwei GmbH (formerly Schaeffler AG) on October 24, 2014, it also assumed that company's operating assets and liabilities in return for an agreed upon amount of consideration. In these financial statements of Schaeffler AG, the difference between the recognized amount of net assets assumed and the receivable recognized for the consideration was initially recognized as a special reserve of EUR 12,600 thousand on the liability side of the balance sheet.

This entire special reserve represents the difference between the EUR 44,286 thousand in compensation paid by Schaeffler Verwaltung Zwei GmbH for release from pensions and similar obligations and the book value of these items of EUR 31,686 thousand, measured based on the requirements of the German Commercial Code as at the date of the transfer. The special reserve is amortized to income over a period of six years on a straight-line basis.

Amortization of EUR 2,100 thousand was recognized on the special reserve in 2015.

#### 3.6 Other provisions

in € thousands	12/31/2015	12/31/2014
Provisions for pending losses on open transactions	122.254	152.064
Provisions for profit sharing and other bonuses	11.232	11.860
Miscellaneous other provisions	8.636	12.086
<b>Total other provisions</b>	<b>142.122</b>	<b>176.010</b>

The company has recognized EUR 118,298 thousand (prior year: EUR 122,348 thousand) in provisions for pending losses for negative market values of forward exchange contracts used to hedge currency risk from operations. The nominal amount of these contracts is EUR 3,780,073 thousand (prior year: EUR 1,791,813 thousand).

The company has a provision for pending losses of EUR 3,955 thousand (prior year: EUR 29,716 thousand) related to the transfer of cross-currency swaps with negative initial market values in 2012, which will be reversed to income. The fair value of the proportional nominal amount of EUR 114,119 thousand (prior year: EUR 883,096 thousand) is EUR 22,895 thousand (prior year: EUR 57,270 thousand).

## 3.7 Liabilities

<b>in € thousands</b>	Due in up to one year	Due in between 1 and 5 years	12/31/2015 Due in more than 5 years
Bank debt	0	654.152	0
Trade payables	1.271	0	0
Amounts payable to affiliated companies	14.558.554	2.043.001	3.002.602
<i>including loans of</i>	<i>13.927.012</i>	<i>2.043.001</i>	<i>3.002.602</i>
<i>including other financial debt of</i>	<i>573.779</i>	<i>0</i>	<i>0</i>
<i>including trade payables of</i>	<i>1.016</i>	<i>0</i>	<i>0</i>
<i>including other liabilities</i>	<i>56.747</i>	<i>0</i>	<i>0</i>
Other liabilities	<b>50.689</b>	<b>0</b>	<b>0</b>
<i>including taxes of</i>	<b>1.416</b>	<b>0</b>	<b>0</b>

<b>in € thousands</b>	Due in up to one year	Due in between 1 and 5 years	12/31/2014 Due in more than 5 years
Bank debt	936	0	1.820.752
Trade payables	452	0	0
Amounts payable to affiliated companies	14.193.816	2.826.455	1.785.306
<i>including loans of</i>	<i>13.553.261</i>	<i>2.826.455</i>	<i>1.785.306</i>
<i>including other financial debt of</i>	<i>565.953</i>	<i>0</i>	<i>0</i>
<i>including trade payables of</i>	<i>6.161</i>	<i>0</i>	<i>0</i>
<i>including other liabilities</i>	<i>68.441</i>	<i>0</i>	<i>0</i>
Other liabilities	<b>30.275</b>	<b>0</b>	<b>0</b>
<i>including taxes of</i>	<b>937</b>	<b>0</b>	<b>0</b>

Schaeffler Finance B.V., a direct subsidiary of Schaeffler AG, issued the Schaeffler Group's bonds. Amounts payable to affiliated companies include EUR 5,051,573 thousand (prior year: EUR 4,673,229 thousand) payable to Schaeffler Finance B.V., largely relating to the transfer of the proceeds from the bond issuance by Schaeffler Finance B.V. Refinancing measures taken during the year have extended the remaining terms of the loans payable to Schaeffler Finance B.V..

In 2015, amounts payable to affiliated companies include no (prior year: EUR 6,880 thousand) amounts payable to shareholders.

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Certain of the company's cross-currency swaps with a nominal amount of EUR 303,304 thousand (prior year: EUR 303,304 thousand) are included in other liabilities at a book value of EUR 28,274 thousand (prior year: EUR 28,274 thousand). The book value is the result of a negative initial market value and is subject to hedge accounting under the net hedge presentation method. The fair value of this portion of the company's cross-currency swaps is EUR 45,511 thousand (prior year: EUR -499 thousand).

Bank debt secured by liens or similar rights (primarily long-term financial assets) amounts to EUR 654,152 thousand (prior year: EUR 1,820,752 thousand).

### 3.8 Hedge accounting

Cross-currency swaps with a nominal amount of EUR 766,849 thousand (prior year: EUR 766,849 thousand) have been designated as hedging instruments in micro-hedges of the risk of changes in cash flows due to changes in foreign exchange rates. These hedging instruments include cross-currency swaps with positive fair values totaling EUR 117,558 thousand (prior year: EUR 14,771 thousand) and with negative fair values totaling EUR 0 thousand (prior year: EUR 15,494 thousand).

The hedged items are intragroup liabilities denominated in foreign currency with a book value of EUR 840,464 thousand (prior year: EUR 766,849 thousand) as at the balance sheet date.

The hedge covers the entire term to maturity of the hedged items (2021 and 2023).

The hedging relationships are considered to be highly effective since the key drivers of the value of the hedged items and the hedging instruments are identical. Effectiveness is tested prospectively using sensitivity analysis and retrospectively using the dollar offset method.

Based on the net hedge presentation method, a total of EUR -117,384 thousand (prior year: EUR -98,545 thousand) in changes in the value of hedged items and EUR 130,225 thousand (prior year: EUR 93,911 thousand) in changes in the value of hedging instruments have not been recognized in the balance sheet.

### 3.9 Deferred taxes

The company's balance of deferred tax liabilities of EUR 313 m represents the net amount of a large number of deferred tax assets and liabilities of the entire Schaeffler AG tax group. Significant deferred tax balances result from differences between amounts recognized in accounting and tax balance sheets with respect to investments in partnerships (deferred tax liabilities), pension provisions (deferred tax assets), provisions for pending losses (deferred tax assets), and long-term debt remeasured based on foreign exchange rates (deferred tax assets). Deferred taxes were calculated using a tax rate of 28.4 %. In addition, deferred tax assets on Schaeffler AG's interest carryforwards were recognized at a tax rate of 25.2 %.



## 4. Notes to the income statement

### 4.1 Disclosures required for the cost of sales format

in € thousands	2015	2014
Wages and salaries	50.758	5.843
Social security, post-employment, and other employee benefit costs	6.157	933
<b>Personnel expense</b>	<b>56.915</b>	<b>6.776</b>

### 4.2 Income and expenses from discounting/compounding provisions and foreign exchange gains and losses

Other operating income includes foreign exchange gains of EUR 726,487 thousand (prior year: EUR 336,176 thousand). Other operating expenses include foreign exchange losses of EUR 699,683 thousand (prior year: EUR 568,580 thousand).

Other interest and similar income includes EUR 675 thousand (prior year: EUR 0 thousand) in income from discounting provisions. Other interest and similar expenses include EUR 5,876 thousand (prior year: EUR 2,683 thousand) in expenses from compounding provisions. Interest income from discounting provisions due to a change in the expected settlement date is presented within financial result.

### 4.3 Expenses and income related to prior years

in € thousands	2015	2014
Tax expense and benefits related to prior years	32.400	10.573
Income from reversals of provisions	3.536	3.612
<b>Expenses and income related to prior years</b>	<b>35.936</b>	<b>14.185</b>

## 5. Other information

### 5.1 Contingent liabilities

The company has the following contingent liabilities, largely arising from bond issuances of Schaeffler Finance B.V.:

<i>in € thousands</i>	<i>12/31/2015</i>	<i>12/31/2014</i>
From granting security for third-party liabilities	4.614.093	4.226.052
<i>including amounts secured by liens of</i>	<i>4.614.093</i>	<i>4.226.052</i>
<i>including security granted for liabilities of affiliated companies of</i>	<i>4.614.093</i>	<i>4.226.052</i>

The company had guarantees outstanding of EUR 42,901 thousand (prior year: EUR 59,150 thousand) at December 31, 2015.

As a result of the positive development of the Schaeffler Group, the company considers the risk of claims under its guarantees for liabilities of others to be low.

The company is the general partner of the following companies:

- Schaeffler Technologies AG & Co. KG, Herzogenaurach,
- Schaeffler Immobilien AG & Co. KG, Herzogenaurach.

### 5.2 Other financial obligations

<i>in € thousands</i>	<i>2015</i>	<i>2014</i>
Off-balance sheet payment obligations	1.524	1.249
<i>including obligations under multi-year leases of</i>	<i>1.053</i>	<i>943</i>
<i>including obligations to affiliated companies of</i>	<i>471</i>	<i>306</i>

### 5.3 Average number of employees for the year

in € thousands	2015	2014
Salaried employees	341	79
Temporary staff	13	2
<b>Total</b>	<b>354</b>	<b>81</b>

### 5.4 Governing bodies of the company

#### Board of Managing Directors

The members of the Board of Managing Directors of Schaeffler AG, Herzogenaurach, are as follows:

##### **Klaus Rosenfeld**

Chief Executive Officer

Responsible for Quality; MOVE, Communications, Marketing & Investor Relations; Legal; Internal Audit; Corporate Development & Strategy; Compliance & Corporate Security; Corporate Real Estate  
Chief Executive Officer since October 24, 2014; appointed until June 30, 2019.

Seats on supervisory and similar boards:

Member of the supervisory board of Continental AG, Hanover

Member of the supervisory board of FAG Bearings India Ltd., Mumbai, India (since February 11, 2015)

##### **Prof. Dr.-Ing. Peter Gutzmer**

Deputy Chief Executive Officer and Chief Technology Officer

Responsible for R&D Strategy, Processes & Resources; Corporate Innovation; R&D Expertise & Service; Protection of Industrial Property; Surface Technology; Information Technology; Digitalization  
Coordination Office

Member of the Board of Managing Directors since October 24, 2014; appointed until December 31, 2019

Seats on supervisory and similar boards:

Member of the supervisory board of Continental AG, Hanover

##### **Dr. Ulrich Hauck**

Chief Financial Officer

Responsible for Finance Strategy, Processes & Infrastructure; Corporate Accounting; Corporate Controlling; Divisional Controlling Automotive and Industrial divisions; Corporate Treasury; Corporate Taxes; Corporate Insurance

Member of the Board of Managing Directors since April 01, 2015; appointed until March 31, 2018

Seats on supervisory and similar boards:

Member of the supervisory board of Bayer Business Services GmbH, Leverkusen (until February 28, 2015)

Member of the supervisory board of Bayer-Pensionskasse VVaG, Leverkusen (until February 28, 2015)

Member of the advisory board of Bayer Pension Trust e.V., Leverkusen (until February 28, 2015)

Member of the board of directors of Euro Services Bayer S.L., Barcelona, Spain (until February 28, 2015)

Member of the supervisory board of mutares AG, Munich

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**Norbert Indlekofer**

CEO Automotive

Responsible for Transmission Systems and Automotive Aftermarket business divisions; Research &amp; Development Automotive division

Member of the Board of Managing Directors since October 24, 2014; appointed until December 31, 2016

Seats on supervisory and similar boards:

Member of the supervisory board of Gienanth GmbH, Eisenberg

**Oliver Jung**

Chief Operating Officer

Responsible for Operations Strategy &amp; Processes; Production Technology; Special Machinery; Tool &amp; Prototype Management; Industrial Engineering; Bearing &amp; Components Technologies; Logistics; Purchasing

Member of the Board of Managing Directors since October 24, 2014; appointed until September 30, 2018

Seats on supervisory and similar boards:

Member of the supervisory board of SupplyOn AG, Munich

**Prof. Dr. Peter Pleus**

CEO Automotive

Responsible for Engine Systems and Chassis Systems business divisions; Global Key Account Management Automotive division; Business Development Automotive

Member of the Board of Managing Directors since October 24, 2014; appointed until December 31, 2016

Seats on supervisory and similar boards:

Member of the supervisory board of IAV GmbH, Berlin

**Corinna Schittenhelm**

Chief Human Resources Officer

Responsible for Human Resources Strategy, Processes &amp; Infrastructure; General Policy &amp; Remuneration Policy; Administration &amp; Payroll; Human Resources Automotive; Human Resources Industrial; Human Resources Corporate Functions; Human Resources Development; Environment, Occupational Health &amp; Safety

Member of the Board of Managing Directors since January 01, 2016; appointed until December 31, 2018

Seats on supervisory and similar boards:

Member of the supervisory board of OSRAM Opto Semiconductors GmbH (until December 31, 2015)

**Dr. Stefan Spindler**

CEO Industrial

Responsible for Strategic Planning Sectors &amp; Customers; Global Sales Industrial; Research &amp; Development and Application Development; Operations and Supply Chain Management; "CORE" Program

Member of the Board of Managing Directors since May 01, 2015; appointed until April 30, 2018

Seats on supervisory and similar boards:

Deputy Chairman of the supervisory board of Schaeffler Austria GmbH, Berndorf- St. Veit, Austria (since June 09, 2015)

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**The following members left the Board of Managing Directors in 2015:**

**Kurt Mirlach**

Chief Human Resources Officer

Responsible for Human Resources Strategy, Processes & Infrastructure; General Policy & Remuneration Policy; Administration & Payroll; Human Resources Automotive; Human Resources Industrial; Human Resources Corporate Functions; Human Resources Development; Environment, Occupational Health & Safety

Member of the Board of Managing Directors from October 24, 2014 until December 31, 2015

**Robert Schullan**

CEO Industrial

Responsible for Business Development Industrial; Industrial Applications business division; Industrial Aftermarket business division; Bearing Technologies; Research & Development Industrial

Member of the Board of Managing Directors from October 24, 2014 until April 30, 2015

Seats on supervisory and similar boards:

Member of the supervisory board of HAWE Hydraulik SE, Munich (since January 01, 2015)

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### **Supervisory Board**

In accordance with section 11 of its articles of incorporation, the company has a twenty-member supervisory board. The Supervisory Board consists of the following individuals:

#### **Georg F. W. Schaeffler**

Shareholder of INA-Holding Schaeffler GmbH & Co. KG

Chairman of the Supervisory Board of Schaeffler AG

Appointed on December 01, 2014

Chairman of the mediation, executive, and nomination committees and member of the audit committee

Seats on other supervisory and similar boards:

Member of the supervisory board of Continental AG, Hanover

#### **Maria-Elisabeth Schaeffler-Thumann**

Shareholder of INA-Holding Schaeffler GmbH & Co. KG

Deputy Chairperson of the Supervisory Board of Schaeffler AG

Appointed on December 01, 2014

Member of the mediation, executive, and nomination committees

Seats on other supervisory and similar boards:

Member of the supervisory board of Continental AG, Hanover

#### **Jürgen Wechsler**

District manager of IG Metall Bayern

Deputy Chairman of the Supervisory Board of Schaeffler AG and member of the mediation and executive committees

Appointed on November 19, 2015

Seats on other supervisory and similar boards:

Member of the supervisory board of BMW AG, Munich

Deputy chairman of the Supervisory Board of Siemens Healthcare GmbH, Munich (since June 29, 2015)

#### **Prof. Dr. Hans-Jörg Bullinger**

Senator of Fraunhofer-Gesellschaft zur Förderung angew. Forschung e.V.

Appointed on December 01, 2014

Seats on other supervisory and similar boards:

Chairman of the supervisory board of ARRI AG, Munich

Member of the supervisory board of Bauerfeind AG, Zeulenroda-Triebes

Chairman of the supervisory board of TÜV SÜD AG, Munich

Deputy chairman of the supervisory board of WILLO SE, Dortmund

#### **Dr. Holger Engelmann**

Chief executive officer of Webasto SE

Appointed on December 01, 2014

Member of the nomination committee

Seats on other supervisory and similar boards:

Member of the supervisory board of Webasto Roof Systems China Ltd., Hong Kong, China

Chairman of the supervisory board of Webasto Thermo & Comfort SE, Gilching

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**Prof. Dr. Bernd Gottschalk**

Acting partner of AutoValue GmbH  
Appointed on December 01, 2014  
Member of the nomination committee

Seats on other supervisory and similar boards:

Member of the supervisory board of JOST-Werke Deutschland GmbH, Neu-Isenburg  
Member of the advisory board of peiker acustic GmbH & Co. KG, Friedrichsdorf  
Member of the supervisory board of Plastic Omnium SA, Levallois-Perret, France  
Member of the supervisory board of Voith GmbH, Heidenheim (until September 30, 2015)  
Chairman of the advisory board of Woco Industrietechnik GmbH, Bad Soden-Salmünster

**Norbert Lenhard**

Chairman of the central works council of Schaeffler Technologies AG & Co. KG; Chairman of the works council Schweinfurt  
Appointed on November 19, 2015  
Member of the mediation and executive committees

**Dr. Siegfried Luther**

Management consultant  
Appointed on December 01, 2014  
Chairman of the audit committee

Seats on other supervisory and similar boards:

Member of the supervisory board of Evonik Industries AG, Essen  
Member of the board of directors of Sparkasse Gütersloh, Gütersloh

**Dr. Reinold Mittag**

Trade union secretary of IG Metall  
Appointed on November 19, 2015  
Member of the audit committee

**Yvonne Münch**

Head of plant purchasing and logistics  
Appointed on November 19, 2015

**Barbara Resch**

2<sup>nd</sup> authorized representative of IG Metall Schweinfurt  
Appointed on November 19, 2015  
Member of the executive committee

**Stefanie Schmidt**

Chairperson of the works council Wuppertal  
Appointed on November 19, 2015

**Dirk Spindler**

Head of research and development and application technology of Schaeffler Technologies AG & Co. KG;  
Appointed on November 19, 2015

**Robin Stalker**

Chief financial officer of adidas AG, Herzogenaurach  
Appointed on December 01, 2014  
Member of the audit committee

**Jürgen Stolz**

Chairman of the works council Bühl  
Appointed on November 19, 2015

**Salvatore Vicari**

Chairman of the works council Homburg/Saar  
Appointed on November 19, 2015  
Member of the audit committee

**Dr. Otto Wiesheu**

Attorney  
Appointed on December 01, 2014

**Prof. KR Ing. Siegfried Wolf**

Chairman of the board of directors of Russian Machines LLC  
Appointed on December 01, 2014  
Member of the executive committee

## Seats on other supervisory and similar boards:

Member of the supervisory board of Banque Baring Brothers Sturdza SA, Geneva, Switzerland  
Member of the supervisory board of Continental AG, Hanover  
Chairman of the supervisory board of GAZ Group, Nizhny Novgorod, Russia  
Chairman of the supervisory board of Glavstroy OJSC, Moscow, Russia (until September 15, 2015)  
Member of the supervisory board of Miba AG, Laakirchen, Austria (since June 25, 2015)  
Chairman of the supervisory board of Österreichische Industrieholding AG, Vienna, Austria (until March 20, 2015)  
Chairman of the supervisory board of SBERBANK Europe AG, Vienna, Austria  
Member of the supervisory board of STRABAG SE, Vienna, Austria (until June 12, 2015)  
Member of the supervisory board of Transtroy Corporation, Moscow, Russia (until September 15, 2015)

**Jürgen Worrlich**

Chairman of the European Schaeffler works council; member of the works council Herzogenaurach  
Appointed on November 19, 2015  
Member of the audit committee

**Prof. Dr.-Ing. Tong Zhang**

Director of the Clean Energy Automotive Engineering Center of Tongji University in Shanghai, China  
Appointed on December 01, 2014

**The following members left the Supervisory Board in 2015:****Jürgen Bänsch**

Trade union secretary of IG Metall – district management [Bayern]/[Bavaria]  
Member of the Supervisory Board until November 19, 2015

**Thomas Mölkner**

Chairman of the corporate works council of the Schaeffler Group; chairman of the works council Herzogenaurach  
Member of the Supervisory Board until November 19, 2015



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#### 5.5 Total remuneration of the company's governing bodies

Total remuneration of the Board of Managing Directors in accordance with section 285 (9a) (1 - 3) HGB amounted to EUR 21 m (prior year: EUR 2 m) in 2015.

In addition, the following share-based remuneration was granted to members of the Board of Managing Directors in 2015 under the Performance Share Unit Plan (PSUP) implemented in 2015: 237,004 Performance Share Units (PSU) subject to a service condition (fair value per PSU at grant date of EUR 11.58), 118,506 PSUs subject to an FCF-based performance target (fair value per PSU at grant date of EUR 11.58) and 118,506 PSUs with a TSR-based performance target (fair value per PSU at grant date of EUR 6.96). Please refer to the remuneration report for a detailed discussion of the PSUP.

Certain members of the Board of Managing Directors have received advances on their variable short-term remuneration in connection with the change in the remuneration system and adjustment of their fixed remuneration. Advances paid in 2015 amounted to EUR 525 thousand.

Short-term benefits paid to members of Schaeffler AG's Supervisory Board, which became operational in early December 2014, amounted to EUR 1.9 m (prior year: EUR 0.2 m).

The remuneration system for the Board of Managing Directors and the Supervisory Board of Schaeffler AG is outlined in the remuneration report. The remuneration report also includes information on the remuneration of individual members of the Board of Managing Directors and additional information required by section 285 (9) HGB.

Former members of the Board of Managing Directors of Schaeffler AG and its legal predecessors (and their surviving dependants) received remuneration of EUR 0.3 m in 2015 (prior year: EUR 1 m).

Provisions for pensions and similar obligations for former members of the Board of Managing Directors of Schaeffler AG and its legal predecessors (and their surviving dependants), before netting of related plan assets, amounted to EUR 8 m at December 31, 2015 (prior year: EUR 1 m).

#### 5.6 Information about amounts not available for distribution under section 268 (8) HGB

EUR 232 thousand (prior year: EUR 45 thousand) are not available for distribution as they relate to assets recognized at fair value.

#### 5.7 Declaration of conformity with the German Corporate Governance Code

Schaeffler AG's Board of Managing Directors and the Supervisory Board issued the declaration of conformity with the German Corporate Governance Code required by section 161 AktG in December 2015 and made it publicly available on the Schaeffler Group's website ([www.schaeffler.com](http://www.schaeffler.com) – "Investor Relations" – "Corporate Governance").

#### 5.8 Auditors' fees

The information on auditors' fees required by section 285 (17) HGB is disclosed in the consolidated financial statements of Schaeffler AG, Herzogenaurach.

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#### 5.9 Group affiliation

The company prepares consolidated financial statements and, in addition, is consolidated in the consolidated financial statements of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach. Both of these are filed with the operator of the Electronic Federal Gazette (Bundesanzeiger Verlagsgesellschaft mbH, Cologne) and published in the Electronic Federal Gazette.

#### 5.10 Responsibility statement by the company's legal representatives

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements provide a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the combined management report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

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Herzogenaurach, February 22, 2016

Schaeffler AG

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Klaus Rosenfeld

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Prof. Dr.-Ing. Peter Gutzmer

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Dr. Ulrich Hauck

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Norbert Indlekofer

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Oliver Jung

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Prof. Dr. Peter Pleus

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Corinna Schittenhelm

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Dr. Stefan Spindler



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# Appendices

## Summary of changes in fixed assets

### Fixed assets of Schaeffler AG (HGB)

in € thousands	01/01/2015	Cost			12/31/2015
		Additions	Transfers	Disposals	
Licenses	105	3	0	0	108
<b>Intangible assets</b>	<b>105</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>108</b>
Furniture and fixtures	359	79	0	0	438
<b>Property, plant and equipment</b>	<b>359</b>	<b>79</b>	<b>0</b>	<b>0</b>	<b>438</b>
Shares in affiliated companies	14.108.811	0	0	0	14.108.811
Other loans receivable	1.723.724	2.159.160	0	2.085.322	1.797.562
<b>Long-term financial assets</b>	<b>15.832.535</b>	<b>2.159.160</b>	<b>0</b>	<b>2.085.322</b>	<b>15.906.373</b>
	<b>15.832.999</b>	<b>2.159.242</b>	<b>0</b>	<b>2.085.322</b>	<b>15.906.919</b>

Amortization, depreciation and write-downs			Book values		
01/01/2015	Additions	Disposals	12/31/2015	12/31/2015	12/31/2014
87	17	0	104	4	18
<b>87</b>	<b>17</b>	<b>0</b>	<b>104</b>	<b>4</b>	<b>18</b>
221	72	0	293	145	138
<b>221</b>	<b>72</b>	<b>0</b>	<b>293</b>	<b>145</b>	<b>138</b>
0	0	0	0	14.108.811	14.108.811
0	0	0	0	1.797.562	1.723.724
<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>15.906.373</b>	<b>15.832.535</b>
<b>308</b>	<b>89</b>	<b>0</b>	<b>397</b>	<b>15.906.522</b>	<b>15.832.691</b>

## List of shareholdings Schaeffler AG as at 12/31/2015

Entity	Location	Country code	Ownership interest in %	Equity in € thousands	Net income in € thousands
<b>A. Affiliated companies</b>					
<b>I. Germany</b>					
AS Auslandsholding GmbH (2)	Bühl	DE	100,00	20.369	0
CBF Europe GmbH	Wuppertal	DE	100,00	-4.864	0
CVT Beteiligungsverwaltungs GmbH	Bühl	DE	100,00	44	2
CVT Verwaltungs GmbH & Co. Patentverwertungs KG	Bühl	DE	100,00	1.636	2.018
Dürkopp Maschinenbau GmbH (2)	Schweinfurt	DE	100,00	4.289	0
Egon von Ruville GmbH (2)	Hamburg	DE	100,00	59.835	0
FAG Aerospace GmbH	Schweinfurt	DE	100,00	41	2
FAG Aerospace GmbH & Co. KG	Schweinfurt	DE	100,00	51.109	7.768
FAG Industrial Services GmbH (2)	Herzogenaurach	DE	100,00	760	0
FAG Kugelfischer GmbH (2)	Schweinfurt	DE	100,00	726.565	0
Gesellschaft für Arbeitsmedizin und Umweltschutz mbH - AMUS (2)	Homburg	DE	100,00	792	0
IAB Grundstücksverwaltungsgesellschaft mbH	Bühl	DE	100,00	270	-8
IAB Holding GmbH (2)	Herzogenaurach	DE	100,00	4.567.977	0
IAB Verwaltungs GmbH (2)	Herzogenaurach	DE	100,00	1.322.860	0
IDAM Beteiligungs GmbH	Herzogenaurach	DE	100,00	28	0
INA - Drives & Mechatronics GmbH & Co. KG (since 01/19/2015 INA - Drives & Mechatronics AG & Co. KG)	Suhl	DE	100,00	1.561	-306
INA Automotive GmbH (2)	Herzogenaurach	DE	100,00	25	0
INA Beteiligungsverwaltungs GmbH (2)	Herzogenaurach	DE	100,00	1.248.248	0
Industrieraufbaugesellschaft Bühl mbH (2)	Bühl	DE	100,00	56.928	0
Industriewerk Schaeffler INA-Ingenieurdienst-, Gesellschaft mit beschränkter Haftung (2)	Herzogenaurach	DE	100,00	558.435	0
KWK Verwaltungs GmbH	Langen	DE	100,00	31	0
LuK ASG GmbH	Bühl	DE	100,00	136	0
LuK Auslandsholding GmbH (2)	Bühl	DE	100,00	59.029	0
LuK Beteiligungsgesellschaft mbH (2)	Bühl	DE	100,00	34.342	0
LuK GmbH & Co. KG	Bühl	DE	100,00	456.549	375.264
LuK Management GmbH	Bühl	DE	100,00	96	0
LuK Truckparts GmbH & Co. KG	Kaltennordheim	DE	100,00	35.559	3.209
LuK Unna GmbH & Co. KG	Unna	DE	100,00	18.973	2.830
LuK Vermögensverwaltungsgesellschaft mbH (2)	Bühl	DE	100,00	1.809.970	0
MEDUSA Beteiligungsverwaltungs-Gesellschaft Nr. 64 mbH	Bühl	DE	100,00	63.579	11.545
PD Qualifizierung und Beschäftigung GmbH (2)	Schweinfurt	DE	100,00	122	0
Raytech Composites Europe GmbH (2)	Morbach	DE	100,00	15.781	0
Schaeffler Automotive Aftermarket GmbH & Co. KG	Langen	DE	100,00	243.660	181.090
Schaeffler Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100,00	444	-6
Schaeffler Beteiligungsverwaltungs GmbH (2)	Herzogenaurach	DE	100,00	40.841	0
Schaeffler Eifershausen GmbH & Co. KG (since 01/22/2015 Schaeffler Eifershausen AG & Co. KG)	Herzogenaurach	DE	100,00	42	-950
Schaeffler Engineering GmbH (2)	Werdohl	DE	100,00	5.347	0
Schaeffler Europa Logistik GmbH (2)	Herzogenaurach	DE	100,00	25	0
Schaeffler Friction Products GmbH (2)	Morbach	DE	100,00	5.131	0
Schaeffler Friction Products Hamm GmbH	Hamm/Sieg	DE	100,00	3.521	726
Schaeffler Immobilien GmbH & Co. KG (since 01/01/2015 Schaeffler Immobilien AG & Co. KG)	Herzogenaurach	DE	100,00	105.208	3.381
Schaeffler Motorenelemente GmbH & Co. KG (since 01/15/2015 Schaeffler Motorenelemente AG & Co. KG)	Herzogenaurach	DE	100,00	7.974	-3.528



Schaeffler Technologies GmbH & Co. KG (since 01/01/2015 Schaeffler Technologies AG & Co. KG)	Herzogenaurach	DE	100,00	11.048.320	1.118.830
Schaeffler Versicherungs-Vermittlungs GmbH (2)	Herzogenaurach	DE	100,00	8.282	0
Schaeffler Verwaltungsholding Drei GmbH (2)	Herzogenaurach	DE	100,00	1.893.562	0
Schaeffler Verwaltungsholding Eins GmbH (2)	Herzogenaurach	DE	100,00	5.910.725	0
Schaeffler Verwaltungsholding Vier GmbH	Herzogenaurach	DE	100,00	24	0
Schaeffler Verwaltungsholding Zwei GmbH (2)	Herzogenaurach	DE	100,00	1.748.118	0
Unterstützungskasse der FAG Kugelfischer e. V.	Schweinfurt	DE	100,00	10.410	-1.534
WPB Water Pump Bearing Beteiligungsgesellschaft mbH	Herzogenaurach	DE	100,00	61	2
WPB Water Pump Bearing GmbH & Co. KG	Herzogenaurach	DE	100,00	57.754	4.775

Entity	Location	Country code	Ownership interest in %	Equity in € thousands	Net income in € thousands
<b>II. Foreign</b>					
FAG Aerospace (Singapore) Pte. Ltd.	Singapore	SG	100,00	-381	-439
FAG Aerospace Inc.	Stratford	CA	100,00	125.514	12.255
FAG Bearings India Ltd.	Mumbai	IN	51,33	181.525	27.739
FAG Bearings LLC	Danbury	US	100,00	15.188	-1.410
FAG Holding LLC	Danbury	US	100,00	0	0
FAG Interamericana A.G.	Miami	US	100,00	23.830	285
FAG Magyarorszag Ipari Kft.	Debrecen	HU	100,00	26.451	2.038
FAG Railway Products G.e.i.e.	Milan	IT	75,00	0	0
Grico Invest GmbH	Chur	CH	100,00	4.043	-19
HYDREL GmbH	Romanshorn	CH	100,00	145.720	2.566
INA Bearing (Pty) Ltd.	Port Elizabeth	ZA	100,00	62.009	3.392
INA Bearings India Private Limited	Pune	IN	100,00	17.963	3.172
INA Invest GmbH	Horn	CH	100,00	7.298	-101
INA Kysuce, spol. s.r.o.	Kysucke Nove Mesto	SK	100,00	166.369	11.885
INA Lanskroun, s.r.o.	Lanskroun	CZ	100,00	9.158	1.170
INA Skalica spol. s.r.o.	Skalica	SK	100,00	107.608	10.850
LMC Bridgeport, Inc.	Danbury	US	100,00	10.773	-817
LuK (UK) Limited	Sheffield	GB	100,00	40.385	2.907
LuK Clutch Systems, LLC	Wooster	US	100,00	127.549	2.077
LuK do Brasil Embregens Ltda.	Sorocaba	BR	100,00	429	32
LuK India Private Limited	Hosur	IN	100,00	30.234	4.144
LuK Leamington Limited	Leamington Spa.	GB	100,00	22.642	-1.373
LuK Norge AS	Kongsberg	NO	100,00	15.539	16
LuK Puebla, S. de R.L. de C.V.	Puebla	MX	100,00	34.451	7.795
LUK Savaria Kft.	Szombathely	HU	100,00	101.402	45.958
LuK Transmission Systems LLC	Wooster	US	100,00	188.005	22.740
LuK USA LLC	Wooster	US	100,00	125.850	1.168
LuK-Aftermarket Services, LLC	Valley City	US	100,00	-3.462	0
Naco Technologies SIA (1)	Riga	LV	100,00	356	-287
Octon G.m.b.H.	Horn	CH	100,00	30.288	58
Radine B.V.	Barneveld	NL	100,00	1.480	761
Rodamientos FAG S.A. de C.V.	Mexico City	MX	100,00	914	-184
Roland Corporate Housing LLC	Cheraw	US	100,00	980	65
Schaeffler Romania S.R.L.	Brasov	RO	100,00	162.734	8.175
Schaeffler (China) Co., Ltd.	Taicang	CN	100,00	483.419	102.931
Schaeffler (Nanjing) Co., Ltd.	Nanjing City	CN	100,00	85.579	6.140
Schaeffler (Ningxia) Co., Ltd.	Yinchuan	CN	100,00	42.330	-1.937
Schaeffler (Singapore) Pte. Ltd.	Singapore	SG	100,00	29.530	2.649
Schaeffler (Thailand) Co., Ltd.	Bangkok	TH	49,00	2.051	851
Schaeffler (UK) Limited	Sutton Coldfield	GB	100,00	63.042	9.847
Schaeffler Aerospace Bearings (Taicang) Co., Ltd.	Taicang	CN	100,00	1.233	-22
Schaeffler Ansan Corporation	Ansan-shi	KR	100,00	59.459	12.765
Schaeffler Argentina S.R.L.	Buenos Aires	AR	100,00	4.596	1.189
Schaeffler Australia Pty Ltd.	Frenchs Forest	AU	100,00	14.540	245
Schaeffler Austria GmbH	Berndorf - St. Veit	AT	100,00	40.422	6.361
Schaeffler Automotive Aftermarket (UK) Limited	Hereford	GB	100,00	90.021	9.254

Schaeffler Automotive Aftermarket Mexico, S. de R.L. de C.V.	Puebla	MX	100,00	15.545	6.076
Schaeffler Bearings (Malaysia) Sdn. Bhd.	Kuala Lumpur	MY	100,00	8.694	2.230
Schaeffler Bearings Indonesia, PT	Jakarta	ID	100,00	2.695	425
Schaeffler Belgium SPRL	Braine L'Alleud	BE	100,00	43.906	850
Schaeffler Belrus OOO	Minsk	BY	100,00	66	14
Schaeffler Brasil Ltda.	Sorocaba	BR	100,00	150.941	15.361
Schaeffler Bulgaria OOD	Sofia	BG	100,00	2.045	272
Schaeffler Canada Inc.	Oakville	CA	100,00	29.671	16.819
Schaeffler Chain Drive Systems SAS	Calais	FR	100,00	5.124	1.312
Schaeffler Chile Rodamientos Ltda.	Santiago	CL	100,00	2.299	310
Schaeffler Colombia Ltda.	Bogota	CO	100,00	238	34
Schaeffler CZ s.r.o.	Prague	CZ	100,00	6.984	1.039
Schaeffler Danmark ApS	Aarhus	DK	100,00	6.885	295
Schaeffler Finance B.V.	Barneveld	NL	100,00	31.094	16.213
Schaeffler Finland Oy	Espoo	FI	100,00	8.270	431
Schaeffler France SAS	Haguenau	FR	100,00	75.682	9.472
Schaeffler Friction Products (Suzhou) Co., Ltd.	Suzhou	CN	100,00	72.903	9.080
Schaeffler Greece Automotive and Industrial Products and Services	Halandri	GR	100,00	37	7
Schaeffler Group USA, Inc.	Fort Mill	US	100,00	667.454	16.817
Schaeffler Holding (China) Co., Ltd.	Shanghai	CN	100,00	332.083	56.674
Schaeffler Holding (Thailand) Co., Ltd.	Bangkok	TH	49,00	-196	-28
Schaeffler Hong Kong Company Limited	Hong Kong	HK	100,00	60.370	3.519
Schaeffler Hrvatska d.o.o.	Zagreb	HR	100,00	371	153
Schaeffler Iberia, S.L.U.	Elgoibar	ES	100,00	75.675	7.947
Schaeffler Israel Ltd.	Yokneam Illit	IL	100,00	102	-70
Schaeffler Italia S.r.l.	Momo	IT	100,00	197.110	10.462
Schaeffler Japan Co., Ltd.	Yokohama	JP	100,00	38.051	5.269
Schaeffler Korea Corporation	Seoul	KR	100,00	371.259	80.348
Schaeffler Magyarorszag Ipari Kft.	Budapest	HU	100,00	3.511	424
Schaeffler Manufacturing (Thailand) Co., Ltd.	Rayong	TH	100,00	-796	198
Schaeffler Manufacturing Rus ooo	Ulyanovsk	RU	100,00	8.543	-6.760
Schaeffler Mexico Holding, S. de R.L. de C.V.	Guanajuato	MX	100,00	64.324	-15
Schaeffler Mexico Servicios, S. de R.L. de C.V.	Guanajuato	MX	100,00	2.713	1.066
Schaeffler Mexico, S. de R.L. de C.V.	Guanajuato	MX	100,00	56.776	-1.128
Schaeffler Middle East FZE	Jebel Ali	AE	100,00	13.430	776
Schaeffler Nederland B.V.	Barneveld	NL	100,00	9.505	1.619
Schaeffler Nederland Holding B.V.	Barneveld	NL	100,00	5.110	2.433
Schaeffler Norge AS	Oslo	NO	100,00	4.625	-25
Schaeffler Peru S.A.C.	Lima	PE	100,00	423	25
Schaeffler Philippines Inc.	Makati City	PH	100,00	3.714	136
Schaeffler Polska Sp. z.o.o.	Warsaw	PL	100,00	10.760	5.413
Schaeffler Portugal, Unipessoal, Lda.	Caldas da Rainha	PT	100,00	22.746	2.239
Schaeffler Rulmanlari Ticaret Ltd. Sti.	Istanbul	TR	100,00	7.009	450
Schaeffler Russland GmbH	Moscow	RU	100,00	3.339	1.367
Schaeffler Slovenija d.o.o.	Maribor	SI	100,00	357	110
Schaeffler Slovensko spol s.r.o.	Kysucke Nove Mesto	SK	100,00	2.043	365
Schaeffler South Africa (Pty.) Ltd.	Johannesburg	ZA	100,00	20.187	10.787
Schaeffler Sverige AB	Arlandastad	SE	100,00	7.551	820
Schaeffler Taiwan Co., Ltd.	Taipei	TW	100,00	2.655	485
Schaeffler Trading (Shanghai) Co., Ltd.	Shanghai	CN	100,00	119.747	39.407
Schaeffler Trading (UK) Limited	Sutton Coldfield	GB	100,00	23	23
Schaeffler Ukraine GmbH	Kiev	UA	100,00	625	232
Schaeffler Venezuela, C.A.	Valencia	VE	100,00	224	16
Schaeffler Vietnam Co., Ltd.	Bien Hoa City	VN	100,00	10.186	678
Stocklook Limited	Swansea	GB	100,00	866	-14
The Barden Corporation	Danbury	US	100,00	151.884	8.423
The Barden Corporation (UK) Ltd.	Plymouth	GB	100,00	73.472	6.319

Entity	Location	Country code	Ownership interest in %	Equity in € thousands	Net income in € thousands
<b>B. Investments</b>					
<b>I. Germany</b>					
Contitech-INA Beteiligungsgesellschaft mbH	Hanover	DE	50,00	46	-3
Contitech-INA GmbH & Co. KG	Hanover	DE	50,00	220	-4
PStec Automation and Service GmbH (1)	Niederwerrn	DE	40,00	613	190
IAV GmbH (1)	Berlin	DE	10,00	137.661	16.283
<b>II. Foreign</b>					
Colinx, LLC (1)	Greenville	US	20,00	3.052	190
Eurings Rt. (1)	Debrecen	HU	37,00	4.620	494

(1) Amounts from 2014

(2) Profit pooling agreement in place